NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

Congressional Information Service, Inc.
Washington, D.C.

COST-SAVINGS LEGISLATION

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 636 (Sec. 2 only), S. 916, S. 918, S. 919, S. 920, S. 1058, S. 1059, S. 1060, S. 1061, S. 1062, S. 1063, S. 1064, S. 1065, S. 1066 and Related Bills

MAY 6, 1981

Printed for the use of the Committee on Veterans' Affairs

U.S. GOVERNMENT PRINTING OFFICE
84-082 O WASHINGTON: 1981

S761-1

COMMITTEE ON VETERANS' AFFAIRS

ALAN K. SIMPSON, Wyoming, *Chairman*

STROM THURMOND, South Carolina
ROBERT T. STAFFORD, Vermont
BOB KASTEN, Wisconsin
JEREMIAH DENTON, Alabama
FRANK H. MURKOWSKI, Alaska
ARLEN SPECTER, Pennsylvania

ALAN CRANSTON, California
JENNINGS RANDOLPH, West Virginia
SPARK M. MATSUNAGA, Hawaii
DENNIS DECONCINI, Arizona
GEORGE J. MITCHELL, Maine

CONTENTS

	Page
Opening statement of Hon. Alan K. Simpson, Chairman of the Senate Committee on Veterans' Affairs	1
Bill S. 636 (section 2), as referred to the Committee on Veterans' Affairs:	
Text of	3
Statement of Hon. Alan Cranston, excerpt from the Congressional Record, March 5, 1981	8
Text of bill S. 916, by request, as referred to the Committee on Veterans' Affairs	10
Bill S. 918, by request, as referred to the Committee on Veterans' Affairs:	
Text of	11
Agency report of the Veterans' Administration (No. 15, May 22, 1981)	16
Bill S. 919, by request, as referred to the Committee on Veterans' Affairs:	
Text of	19
Agency reports of:	
Veterans' Administration (No. 8, March 23, 1981)	21
Office of Management and Budget (No. 36, July 13, 1981)	25
Bill S. 920, by request, as referred to the Committee on Veterans' Affairs:	
Text of	26
Agency report of the Office of Management and Budget (No. 34, July 13, 1981)	28
Text of bill S. 1058, by request, as referred to the Committee on Veterans' Affairs	29
Text of bill S. 1059, as referred to the Committee on Veterans' Affairs	34
Text of bill S. 106036, as referred to the Committee on Veterans' Affairs	36
Text of bill S. 1061, as referred to the Committee on Veterans' Affairs	38
Text of bill S. 1062, as referred to the Committee on Veterans' Affairs	41
Text of bill S. 1063, as referred to the Committee on Veterans' Affairs	43
Text of bill S. 1064, as referred to the Committee on Veterans' Affairs	44
Text of bill S. 1065, as referred to the Committee on Veterans' Affairs	46
Text of bill S. 1066, as referred to the Committee on Veterans' Affairs	67
Testimony of:	
Robert E. Coy, Acting General Counsel, Veterans' Administration, accompanied by Dr. A. S. Aaronian, Assistant Chief Medical Director for Dentistry; Charles V. Yarborough, Director of Management Support Services, Department of Medicine and Surgery; and Ms. Marjorie Quandt, Assistant Chief Medical Director for Administration	50
Dorothy L. Starbuck, Chief Benefits Director, Veterans' Administration, accompanied by Ms. June Schaeffer of the Education Service; Herb Mars of the Compensation and Pension Service; and John H. Thompson of the General Counsel's Office	87
Donald H. Schwab, director, National Legislative Service, Veterans of Foreign Wars of the United States	123
Charles E. Joeckel, assistant national legislative director, Disabled American Veterans	140
Dr. Paul W. Schafer, president, National Association of Veterans' Administration Physicians	162
Dr. L. Thompson Bowles, Association of American Medical Colleges	170
John F. Thompson, president, McGraw-Hill Continuing Education Center, on behalf of the National Home Study Council	174
W. Lawrence Graves, vice president, Aircraft Owners and Pilots Association	204
Dr. L. Thompson Bowles, Association of American Medical Colleges—Continued	
Richard P. Cooley, counsel of the Travelers Insurance Co., accompanied by James E. Barrett, executive vice president, Mutual of Omaha Insurance Co.; and David Patterson, Health Insurance Association of America	212
Neil Hollander, vice president, Blue Cross and Blue Shield Associations	222

Written statement of: Page
Hon. Strom Thurmond, a U.S. Senator from the State of South Carolina ... 49
Hon. Robert T. Stafford, a U.S. Senator from the State of Vermont ... 50
Robert E. Coy, Acting General Counsel, Veterans' Administration ... 74
Dorothy L. Starbuck, Chief Benefits Director, Veterans' Administration ... 94
Donald H. Schwab, director, national legislative service, Veterans of Foreign Wars of the United States ... 127
Charles E. Joeckel, Jr., assistant national legislative director, Disabled American Veterans ... 142
Dr. Paul W. Schafer, president, National Association of Veterans' Administration Physicians (NAVAP) ... 164
John F. Thompson, president, McGraw-Hill Continuing Education Center in behalf of the National Home Study Council ... 177
W. Lawrence Graves, vice president, Aircraft Owners and Pilots Association ... 207
Richard P. Cooley, counsel of the Travelers Insurance Co. on behalf of the Health Insurance Association of America ... 214
Ne'l Hollander, vice president, Blue Cross and Blue Shield Associations ... 224
Robert E. Lyngh, director, National Veterans Affairs and Rehabilitation Commission, The American Legion ... 239
National Association of Life Companies in opposition to S. 1058 ... 248
Questions and answers:
Response of the Veterans' Administration to written questions submitted by Hon. Alan Cranston, ranking minority member of the Committee on Veterans' Affairs ... 111
Response of John F. Thompson, President of McGraw-Hill Continuing Education Center, to a question submitted by Hon. Bob Kasten, a U.S. Senator from the State of Wisconsin ... 196
Response of the National Home Study Council to written questions submitted by Hon. Alan Cranston, ranking minority member of the Committee on Veterans' Affairs ... 201
Miscellaneous:
Letter to Hon. Alan K. Simpson, chairman of the Committee on Veterans' Affairs, from Dr. James H. Sammons, American Medical Association, dated May 6, 1981 ... 255
Mailgram to Hon. Alan K. Simpson, chairman of the Committee on Veterans' Affairs, from Dr. Stanley G. Koreman, president-elect, AVACOM, dated May 1, 1981 ... 257

APPENDIXES

Appendix A.—Excerpts from the House conference report No. 97-208, book 1, to accompany H.R. 3982, July 29, 1981 ... 258
Appendix B.—Excerpts from the House conference report No. 97-208, book 2, to accompany H.R. 3982, July 29, 1981 ... 263

COST-SAVINGS LEGISLATION

WEDNESDAY, MAY 6, 1981

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The committee met, pursuant to notice, at 9:37 a.m., in room 412, Russell Office Building, Hon. Alan K. Simpson (chairman of the committee) presiding.

Present: Chairman Alan K. Simpson, Senators Strom Thurmond and Alan Cranston.

OPENING STATEMENT OF HON. ALAN K. SIMPSON, CHAIRMAN OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS

Chairman SIMPSON. Good morning.

We have before us today 14 different proposals for saving money within the VA. I introduced 13 of them to get things off and rolling, but this does not necessarily mean that I have my heart set on assuring that all 13 are enacted into law.

Some of them I do not fully support, but I sponsored them in order to assure that this committee would have before it the proper legislative vehicles for a broad range of cost-savings programs and measures from which to choose.

The committee has no position on any of these bills, but I remind my colleagues that we are committed by virtue of our earlier views and estimates made to the Budget Committee to achieve some $324 million in cost savings by May 31. It is quite possible that we may only have to come up with some lesser figure of savings, and we shall know that shortly.

But in any event I believe we should all be viewing this hearing as a very necessary and constructive prelude to whatever cuts must be made. Since we have a good bit of ground to cover this morning, much of it heretofore unbroken ground, I'll keep my comments to a minimum and turn instead to you for yours.

We'll first hear from witnesses offering comprehensive testimony on the full range of bills before us today. Then we shall hear testimony specifically directed at three of the more controversial bills. The comprehensive testimony will begin with representatives of the VA, Dorothy Starbuck, Chief Benefits Director, Department of Veterans' Benefits; and Robert Coy, Acting General Counsel.

Two of the major national veterans' organizations are represented here this morning, VFW by its legislative director, Don Schwab; and the DAV by its assistant national legislative director, Butch Joeckel.

As for those bills that will be individually commented upon, we shall first turn to S. 919 on the subject of physicians and dentists

bonuses, and we'll hear the testimony of Dr. Paul Shafer, president of the National Association of VA Physicians; and Dr. Thomas Bowles of the Association of American Medical Colleges.

On the subject of S. 918, pertaining to flight and correspondence training, we shall hear from John Thompson of the National Home Study Council, and Lawrence Graves of the Aircraft Owners and Pilots Association; and finally as to S. 1058, on the subject of third party reimbursement as it affects private health insurance carriers, we will hear from Richard Cooley and James Barrett of the Health Insurance Association of America; and also Neil Hollander of Blue Cross and Blue Shield.

The texts of the bills, S. 636 (section 2), S. 916, S. 918, S. 919, S. 920, S. 1058, S. 1059, S. 1060, S. 1061, S. 1062, S. 1063, S. 1064, S. 1065, S. 1066, the introductory statements, and the agency reports thereon will be placed in the record at this point.

[The texts of the bills, S. 636 (section 2), S. 916, S. 918, S. 919, S. 920, S. 1058, S. 1059, S. 1060, S. 1061, S. 1062, S. 1063, S. 1064, S. 1065, S. 1066, previously referred to, the introductory statement of the author of the bill, S. 636, and the agency report thereon, follow:]

II

97TH CONGRESS
1ST SESSION

S. 636

To clarify the Veterans' Administration's authority to recover certain health-care costs, to extend the period of availability of funds committed under the Veterans' Administration program of assistance to new State medical schools, to authorize expansion of the scope of an epidemiological study regarding veterans exposed to Agent Orange, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 5 (legislative day, FEBRUARY 16), 1981

Mr. CRANSTON (for himself, Mr. RANDOLPH, and Mr. STAFFORD) introduced the following bill, which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To clarify the Veterans' Administration's authority to recover certain health-care costs, to extend the period of availability of funds committed under the Veterans' Administration program of assistance to new State medical schools, to authorize expansion of the scope of an epidemiological study regarding veterans exposed to Agent Orange, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That this Act may be cited as the "Veterans' Administration Health Care Amendments of 1981".

VETERANS' ADMINISTRATION HEALTH-CARE COST RECOVERY PROVISIONS

SEC. 2. (a) Subchapter III of chapter 17 of title 38, United States Code, is amended by adding after section 628 the following new section:

"§ 629. Recovery by the United States of the cost of certain care and services

"(a) In any case in which a veteran is furnished care and services under this chapter for a non-service-connected disability and such disability was incurred—

"(1) incident to such veteran's employment and the disability is covered under a workers' compensation law or plan which provides reimbursement for or indemnification of the cost of health care and services provided to the veteran by reason of the disability,

"(2) as the result of a motor vehicle accident covered under the law of a State which requires the owners or operators of motor vehicles registered in such State to have in force automobile accident reparations insurance, or

"(3) as the result of a crime of personal violence that occurred in a State or subdivision thereof in which a person injured as the result of such crime is entitled

to receive health care and services at such State's or subdivision's expense for personal injuries suffered as the result of such crime,

the United States shall have the right to recover, subject to the limitations, conditions and procedures prescribed in subsections (b) and (c) of this section, the reasonable costs of such care and services from the State or subdivision thereof, employer, employer's insurance carrier, or automobile accident reparations insurance carrier, to the extent that such veteran, or the provider of care and services to such veteran, would be eligible to receive reimbursement or indemnification for such care and services if such care and services had not been furnished by a department or agency of the United States.

"(b) The amount that may be recovered by the United States in exercising the right provided under subsection (a) of this section may not exceed the lesser of (1) an amount equal to the reasonable cost of the care and services furnished such veteran under this chapter, as determined by the Administrator pursuant to regulations which the Administrator shall prescribe after notice and opportunity for public comment, or (2) the maximum amount specified by the law of the State or subdivision thereof concerned or by any relevant contractual provision to which such veteran was a party or was subject.

"(c)(1) The United States shall, as the right provided in subsection (a) of this section, be subrogated to any right or claim that such veteran or such veteran's personal representative, successor, dependents, or survivors may have against a State or subdivision thereof, an employer, an employer's insurance carrier, or an automobile accident reparations insurance carrier.

"(2) In order to enforce any such right or claim to which it is subrogated under paragraph (1) of this subsection—

"(A) the United States may intervene or join in any action or proceeding brought by the veteran or such veteran's personal representative, successor, dependents, or survivors against a State or subdivision thereof, an employer, an employer's insurance carrier, or an automobile accident reparations insurance carrier, or

"(B) if—

"(i) no such action or proceeding has been commenced within one hundred and eighty days after the first day on which care and services for which recovery is sought were furnished to such veteran by the Veterans' Administration under this chapter, and

"(ii) the United States has sent written notice by certified mail to such veteran at such veteran's last-known address, or to such veteran's personal representative or successor, of the United States' intention to institute legal proceedings,

the United States may sixty days after the mailing of such notice, institute and prosecute legal proceedings against such State or subdivision thereof, employer, employer's insurance carrier, or automobile accident reparations carrier.

"(d) A veteran eligible for care and services under this chapter may not be denied such care and services by reason of this section.

"(e) No law of any State or of any subdivision thereof, and no provision of any contract or agreement entered into, renewed, or modified pursuant to any State law shall operate to prevent recovery by the United States under (1) subsection (a) of this section for care and services furnished under this chapter to any veteran for a non-service-connected disability, or (2) subsection (b) of section 611 of this title for care and services furnished as a humanitarian service in emergency cases under such subsection to any individual.".

(b) The table of sections at the beginning of such chapter is amended by adding after the item relating to section 628 the following new item:

"629. Recovery by the United States of the cost of certain care and services.".

[From the Congressional Record, Vol. 127, No. 36, pp. S1851-S1855—Senate, Mar. 5, 1981]

VETERANS' ADMINISTRATION HEALTH CARE AMENDMENTS OF 1981

Mr. CRANSTON. Mr. President, the bill I am introducing today on behalf of myself and two other members of the Veterans' Affairs Committee, the Senator from West Virginia (Mr. Randolph) and the Senator from Vermont (Mr. Stafford), contains three VA health-care related provisions that were passed twice by the Senate last fall, but were not acted on by the House of Representatives before the 96th Congress adjourned. Briefly, the Senate passed these three provisions unanimously on September 4, 1980, as part of S. 1188, the "Disabled Veterans' Rehabilitation Act of 1980"—which ultimately was enacted, with modifications in titles I, II and V of Public Law 96-466—but, because the House Committee on Veterans' Affairs objected to the inclusion of these provisions in that legislation on grounds of germaneness, the health-care provisions were not included in the compromise agreement that incorporated S. 1188. In an attempt to overcome this objection and gain House consideration before the end of the last Congress, these three provisions were inserted as an amendment in the nature of a substitute in a separate House-passed health bill that was pending in the Senate Committee on Veterans' Affairs—H.R. 4015— which was then passed by the Senate on September 26, 1980, and sent back to the House where, unfortunately, it died with the sine die adjournment of the 96th Congress.

Mr. President, these three provisions would:

First, strengthen and clarify the VA's authority to recover the costs of veterans' non-service-connected care, in appropriate cases, from workers' compensation carriers, automobile no-fault insurers, and States that pay for the costs of health care provided to victims of personal violence;

Second, modify the VA's program of grant assistance to new State medical schools under subchapter I of chapter 82 of title 38, United States Code, to provide an additional 12-month period in which the five new State medical schools established with assistance under that subchapter may obligate funds previously committed to them; and

Third, authorize the expansion of the scope of the epidemiological study mandated by section 307 of Public law 96-151 regarding veterans exposed to agent orange to include additional factors that might be related to the health problems being experienced by Vietnam veterans, and establish timetables within which the Administrator of Veterans' Affairs, based on the results of such study and other available pertinent information, would develop regulations for the resolution of claims for benefits based on exposure to agent orange and, if the scope of the study is expanded, on the other factors.

* * * * * * *

HEALTH-CARE COST RECOVERY PROVISIONS

Mr. President, under the Medical Care Recovery Act, sections 2651 and 2652 of title 42, United States Code, and pursuant to VA regulations, the VA has an active program in many States for recovering health-care costs in cases in which a non-service-connected disabled veteran is provided VA hospital, nursing home, or outpatient care and also is entitled to reimbursements for health-care costs for disabilities covered by workers' compensation, automobile no-fault accident insurance, or a State's crime-victims' compensation program. However, in some States the VA is precluded from such recoveries because of State laws, insurance exclusionary clauses, or State-court interpretations.

Section 2 of the bill we are introducing would provide clear authority for the United States to recover the costs of hospital, nursing home, or outpatient medical care furnished by the VA to veterans for non-service-connected disabilities to the extent they have entitlement to payment for private medical care under the situations I listed above. Under this provision, the United States would have an independent right to recover its costs of providing health care in such a situation to the extent that the third party involved—such as the veterans' employer, the workers' compensation carrier, or the State with a crime-victim compensation program—would be liable if the care and treatment were provided in a non-Federal facility.

Recoveries would be limited to any maximum amount specified by law in the State or community concerned or by a relevant provision in a contract of insurance or indemnification unless the amount sought to be recovered was a lesser amount. In the latter situation, the amount of the recovery would be governed by the reasonable costs of the care and services provided by the VA, as determined by the Administrator under a schedule of costs that would be prescribed after notice and opportunity for public comment.

INTENTIONAL BLANK

Mr. President, the purpose of providing clear statutory authority for the right of recovery in these situations is to enable the VA, in appropriate cases, to pursue these recoveries without extensive litigation over the issue of its authority to recover. The provision in this bill would override provisions in State laws and codes of local communities that exclude, for the purpose of workers' compensation, auto no-fault, and crime-victims' compensation health-care coverage, any care provided in a Federal health-care facility. It also would provide expressly that veterans eligible for VA health-care services under chapter 17 of title 38 may not be denied VA medical care or services by reason of this provision.

The Congressional Budget Office has informally and preliminarily estimated that potential recoveries would be $500,000 in the first year of full implementation rising to $2.2 million in the fourth year. Thus, particularly in view of the budget-conscious climate in which we now require Federal agencies to operate, I believe we should provide the VA with straighforward authority in this regard in order to make it easier for the VA to collect reimbursements to which it is entitled.

* * * * * * *

II

97TH CONGRESS
1ST SESSION

S. 916

To amend title 38, United States Code, to eliminate provision of outpatient dental treatment for service-connected noncompensable dental conditions which are unrelated to service trauma or prisoner-of-war status.

IN THE SENATE OF THE UNITED STATES

APRIL 8 (legislative day, FEBRUARY 16), 1981

Mr. SIMPSON (by request) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to eliminate provision of outpatient dental treatment for service-connected noncompensable dental conditions which are unrelated to service trauma or prisoner-of-war status.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 612 of title 38, United States Code, is amended by striking out clause (2) of subsection (b) in its entirety and redesignating clauses (3) through (8), respectively, as clauses (2) through (7).

SEC. 2. This Act shall be effective July 1, 1981.

II

97TH CONGRESS
1ST SESSION

S. 918

To amend title 38, United States Code, to terminate the authority for the pursuit of flight training programs by veterans and for the pursuit of correspondence training by veterans, spouses, and surviving spouses, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 8 (legislative day, FEBRUARY 16), 1981

Mr. SIMPSON (by request) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to terminate the authority for the pursuit of flight training programs by veterans and for the pursuit of correspondence training by veterans, spouses, and surviving spouses, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That chapter 32 of title 38, United States Code, is amended by—

(1) striking out section 1631(c);

(2) redesignating section 1631(d) as section 1631(c); and

(3) striking out in section 1641 "1677, 1681(c)".

SEC. 2. Chapter 34 of title 38, United States Code, is amended by—

(1) striking out in section 1652(c) "correspondence school,";

(2) striking out in section 1662(c) "or flight training within the provisions of section 1677 of this chapter,";

(3) striking out in section 1673(b) "Except as provided in section 1677 of this title, the" and inserting in lieu thereof "The";

(4) repealing section 1677 in its entirety;

(5) striking out in section 1681(b) the comma following "education" and the phrase "other than a program exclusively by correspondence or a program of flight training,";

(6) repealing section 1681(c):

(7) striking out the center heading which immediately precedes section 1681(c);

(8) striking out in section 1682(a)(1) "1677 or"; and

(9) amending section 1684 to read as follows:

"§ 1684. Apprenticeship or other on-job training

"Any eligible veteran may pursue a program of apprenticeship or other on-job training and be paid a training assistance allowance as provided in section 1787 of this title.".

SEC. 3. Chapter 35 of title 38, United States Code, is amended by—

(1) striking out in section 1701(a)(6) "correspondence school,";

(2) striking out in section 1734 "(a)";

(3) repealing section 1734(b); and

(4) amending the catchline at the beginning of section 1734 to read as follows:

"§ 1734. Apprenticeship or other on-job training".

SEC. 4. Chapter 36 of title 38, United States Code, is amended by—

(1) striking out the comma following "or training" in section 1780(a) and the phrase "other than a program by correspondence or a program of flight training,";

(2) striking out clause (5) of section 1780(a);

(3) inserting "or" at the end of clause (4) of section 1780(a);

(4) redesignating clause (6) of section 1780(a) as clause (5);

(5) repealing section 1780(b);

(6) striking out the center heading which immediately precedes section 1780(b);

(7) redesignating sections 1780 (c), (d), (e), (f), and (g) as sections 1780 (b), (c), (d), (e), and (f), respectively;

(8) striking out in section 1780(d) (as redesignated by clause (7) of this section) "(d)" and inserting in lieu thereof "(c)";

(9) striking out in section 1780(e) (as redesignated by clause (7) of this section) "(d)" and inserting in lieu thereof "(c)";

(10) striking out in section 1784(a) "or, in the case of correspondence training, the last date a lesson was serviced by the school";

(11) striking out in section 1784(c) "(d)" and inserting in lieu thereof "(c)";

(12) repealing section 1786 in its entirety; and

(13) striking out in section 1798(c) "correspondence, or".

SEC. 5. (a) The table of sections at the beginning of chapter 34 of title 38, United States Code, is amended by—

(1) striking out

"1677. Flight training."

and

"1684. Apprenticeship or other on-job training, correspondence courses.";

and

(2) inserting in lieu thereof

"1684. Apprenticeship or other on-job training.".

(b) The table of sections at the beginning of chapter 35 of title 38, United States Code, is amended by—

(1) striking out

"1734. Apprenticeship or other on-job training; correspondence courses.";

and

(2) inserting in lieu thereof

"1734. Apprenticeship or other on-job training.".

(c) The table of sections at the beginning of chapter 36 of title 38, United States Code, is amended by striking out

"1786. Correspondence courses.".

SEC. 6. Section 604(a) of the Act of October 24, 1972, entitled the "Vietnam Era Veterans' Readjustment Assistance Act of 1972" (86 Stat. 1099), as amended by section 3 of the Act of July 10, 1974, an act entitled "An Act to amend title 38, United States Code, to provide a ten-year delimiting period for the pursuit of educational programs by veterans, wives, and widows" (88 Stat. 292), is amended by deleting the following: "(1) eligible to pursue a program of education exclusively by correspondence by virtue of the provisions of section 1786 of such title (as added by section 316 of this Act) or (2)".

SEC. 7. This Act shall be effective July 1, 1981.

[No. 15]

COMMITTEE ON VETERANS' AFFAIRS, U.S. SENATE

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington, D.C., May 22, 1981.

Hon. ALAN K. SIMPSON,
Chairman, Committee on Veterans' Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This will respond to your request for a report by the Veterans' Administration on S. 918, 97th Congress, a bill "To amend title 38, United States Code, to terminate the authority for the pursuit of flight training programs by veterans and for the pursuit of correspondence training by veterans, spouses, and surviving spouses, and for other purposes."

This measure, is basically identical to a draft bill which the Veterans' Administration forwarded to the President of the Senate and the Speaker of the House of Representatives on January 19, 1981, with the request that it be introduced. A copy of the transmittal letter, explaining the proposal and urging its enactment, is enclosed.

The only difference between S. 918 and the original draft bill is the inclusion in S. 918 of section 7, which makes the proposal effective July 1, 1981. Our request to add that effective date (and thereby save an estimated $14 million in direct benefits in fiscal year 1981) was submitted in our letter to you of March 16, 1981. We strongly support the enactment of S. 918.

The Office of Management and Budget has advised the Veterans' Administration in connection with the legislation that its enactment would be in accord with the program of the President.

Sincerely,

RUFUS H. WILSON,
Acting Administrator.

Enclosure.

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington, D.C., January 19, 1981.

Hon. WALTER F. MONDALE,
President of the Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Enclosed is a draft bill which would amend title 38, United States Code, to terminate authority for the Veterans' Administration to provide educational assistance to veterans for pursuit of flight training and to veterans, spouses, and surviving spouses to pursue correspondence training. We request that the bill the introduced and receive favorable consideration.

In enacting all three GI Bill programs—World War II, Korean conflict, and post-Korean conflict—the Congress intended that the educational assistance provided would be a readjustment benefit designed to (a) extend the benefits of a higher education to qualified and deserving persons who might otherwise be unable to afford such an education; (b) provide vocational readjustment and restore lost educational opportunities to those individuals whose careers had been interrupted by military services; and (c) aid such individuals to attain the educational and vocational status they would have attained but for their service to their country. Benefits for pursuit of training programs, such as flight and correspondence training, were designed to assist individuals to obtain necessary skills and enable them to find employment.

It is the position of the Veterans' Administration that the flight and correspondence training programs have not met the objective of providing substantial employment for those trained, and that many individuals have used these programs primarily for recreational or avocational purposes. This position is supported by three studies made in recent years concerning these two programs.

In March 1979 the General Accounting Office surveyed a representative sample of veterans who had completed flight and correspondence courses to determine whether their full-time occupations were related to the training they had received under the GI Bill. In his report of August 24, 1979, the Comptroller General stated that, upon reviewing a random sample of recent flight trainees, the GAO found only about 16 percent had full-time jobs directly related to such training. Additionally, the GAO study showed the number of veterans who had taken flight training under the GI Bill substantially exceeded the number of pilot jobs available or expected to be available through 1985 and that the benefit cost ran into hundreds of millions of dollars.

The August 1979 GAO report also showed that only about 34 percent of those who completed correspondence training had full-time jobs directly related to their training and that the overall completion rate for correspondence training courses was less than 50 percent.

A second audit of the utilization of educational assistance benefits for pursuit of flight and correspondence courses was conducted between November 1978 and March 1979 by the VA Inspector General. In his September 1979 report, the VA Inspector General stated that 57 percent of the flight students reviewed were found to be using the training avocationally. Additionally, a survey of veterans who had completed correspondence courses disclosed that less than half were directly employed in the field for which they trained.

Thus, these two studies substantiated the findings of the July 11, 1978, report the Veterans' Administration sent to the Congress entitled, "Study of Vocational Objective Programs Approved for Enrollment of Veterans." That report contained data which revealed that flight and correspondence training programs were not achieving their intended purpose—to help provide a source of continuing substantial professional employment for veterans and dependents. For example, the 1978 study showed that, while completion rates in flight training were 76 percent, graduates were quick to accept very limited, part-time employment for the purpose of receiving free or reduced

rate flying rather than for professional employment. Therefore, while the placement data for flight schools appeared high, where full-time jobs were concerned, placement statistics were significantly lower. Similarly, the report went on to note that completion statistics for correspondence courses indicated an average completion rate for vocational courses offered by correspondence was only 41 percent.

In summary, our years of experience in administering education programs for veterans and other eligible persons convince us that flight and correspondence courses have not fulfilled their intended purpose of aiding the beneficiary to adjust to his or her changed circumstances by providing the training required for employment. It is our conclusion that the ineffectiveness of these programs, along with the potential for their continued misuse, warrants their termination. Therefore, we strongly urge that the Congress enact our proposal to terminate the authority for the VA to provide educational benefits for pursuit of these training courses.

It is estimated that enactment of this measure would result in direct benefits cost savings in fiscal year 1982 of $32 million and in direct benefits cost savings over the first 5 fiscal years of $120.9 million.

On January 15, 1981, the Office of Management and Budget advised that enactment of this legislative proposal would be in accord with the program of the President.

Sincerely,

MAX CLELAND, *Administrator.*

II

97TH CONGRESS
1ST SESSION

S. 919

To limit payment of special pay authorized eligible Veterans' Administration physicians and dentists under section 4118, title 38, United States Code, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 8 (legislative day, FEBRUARY 16), 1981

Mr. SIMPSON (by request) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To limit payment of special pay authorized eligible Veterans' Administration physicians and dentists under section 4118, title 38, United States Code, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Veterans' Administration Special Pay Amendments of 1981".

SEC. 2. Notwithstanding any other provision of law, no more than 12 per centum of the total amount appropriated for remuneration of physicians and dentists in the Veterans' Administration's Department of Medicine and Surgery shall

be expended for special pay under section 4118 of title 38, United States Code.

[No. 8]

COMMITTEE ON VETERANS' AFFAIRS, U.S. SENATE

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington, D.C., March 23, 1981.

Hon. GEORGE H. BUSH,
President of the Senate,
Washington, D.C.

DEAR MR. PRESIDENT: There is transmitted herewith a draft bill "To limit the payment of special pay authorized eligible Veterans' Administration physicians and dentists under section 4118, title 38, United States Code."

The current rates of special pay for physicians and dentists in this Agency's Department of Medicine and Surgery (DM&S) were established by the Congress in Public Law No. 96–330, section 102, 94 Stat. 1030, enacted in August 1980. This legislation, among other things, made permanent the special pay authority for eligible physicians and dentists employed in the DM&S, and substantially increased the rates of special pay authorized under section 4118, title 38, United States Code, up to a maximum of $27,500. It should be noted that fewer than 50 physicians are receiving an amount in excess of $22,500. Such increases were justified by the Congress as needed to enhance recruitment and retention of DM&S physicians and dentists and to ensure that their pay was reasonably competitive with the pay of those in the non-VA Federal and private sectors.

Following passage of H.R. 7102 by the Congress (the bill which ultimately was enacted as Public Law 96–330), President Carter vetoed the measure on the grounds that the special pay increases contained therein were excessive and unneeded for attracting and retaining VA physicians. In his veto message, President Carter noted that the bonuses provided in the bill would make VA physicians the highest paid medical personnel in the Federal Government, earning more than their contemporaries in the military. He indicated the Defense Department's concern that the differential in pay resulting from the pr[illegible]ed new law could adversely affect that Department's physician recruitment and retention efforts. In vetoing H.R. 7102, President Carter urged the Congress to pass a bill which would meet the Veterans' Administration's real and specific needs for certain physician specialists. His veto was, however, overridden by the Congress.

This administration also believes that this Agency's physician requirements can be met through a more flexible and targeted approach, and at less cost to the taxpayer, than was provided in Public Law 96–330. Accordingly, the enclosed draft bill would establish a limitation on the funds available for DM&S physician and dentist special pay, effective July 1, 1981, amounting to 12 percent of the total annual appropriation for remuneration of DM&S physicians and dentists.

The bill would also eliminate the mandatory nature of primary special pay.

Under the approach in this draft bill, the VA Administrator would have greater flexibility to use special pay where it is actually needed—to attract and retain health-care professionals for service in certain specific locations and in medical and dental specialties in which extraordinary recruitment and retention difficulties have been experienced. VA's special pay authority would remain permanent in nature and would continue to be a very useful tool for the DM&S.

We estimate the additional cost of the increased special pay authority provided under Public Law 96–330 to be approximately $80 million. The proposal to cap special pay, effective on July 1, 1981, would generate cost savings of approximately $10 million in fiscal year 1981. Assuming the total amount appropriated for fiscal year 1982 as remuneration for DM&S physicians and dentists is the $798 million requested in the revised budget, this proposal would produce outlay savings of approximately $40 million in fiscal year 1982. This would bring outlays to the level estimated by the Congressional Budget Office at the time the Congress was considering passage of Public Law 96–330.

The proposed legislation enclosed herewith is necessary to assist the President in his efforts to reduce personnel costs of the Federal Government and restrain Federal spending, and we urge its prompt enactment.

The Office of Management and Budget advises that enactment of the proposed legislation would be in accord with the President's program.

Sincerely,

RUFUS H. WILSON,
Acting Administrator.

Enclosures.

A BILL to limit payment of special pay authorized eligible Veterans' Administration physicians and dentists under section 4118, title 38, United States Code, and for other purposes

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Veterans' Administration Special Pay Amendments of 1981".

SEC. 2 (a). Notwithstanding any other provision of law, no more than 12 percent of the total amount appropriated for remuneration of physicians and dentists in the Veterans' Administration's Department of Medicine and Surgery shall be expended for special pay under section 4118 of title 38, United States Code,

(b) The provisions of this section shall take effect on July 1, 1981.

SEC. 3(a). Subsection b of section 4118 of title 38, United States Code, is amended by—

(1) striking out "shall" the first time it appears and inserting in lieu thereof "may";

(2) inserting "an amount not to exceed" after "of" in paragraph (2); and

(3) inserting "an amount not to exceed" before "$7,000" and striking out "of" before "$2,500" in paragraph (3).

SECTION-BY-SECTION ANALYSIS OF DRAFT BILL

The first section of this measure provides that it may be cited as the "Veterans' Administration Special Pay Amendments of 1981".

Section 2(a) of this draft measure would establish a limitation on the funds available for DM&S physician and dentist special pay, authorized by 38 U.S.C. § 4118. The expenditure for special pay would not be allowed to exceed 12 percent of the total funding appropriated for remuneration of DM&S physicians and dentists.

Section 2(b) of the draft bill would make the funding limitations set out in section one effective on July 1, 1981.

Section 3 of the draft bill would amend section 4118(b) of title 38, United States Code. It would allow the Administrator to exercise discretion in providing primary special pay up to a maximum of $7,000 and $2,500 to eligible physicians and dentists, respectively.

CHANGES IN EXISTING LAW MADE BY DRAFT BILL

Changes in existing law made by this bill are shown as follows (existing law proposed to be omitted is enclosed in brackets, new matter is italic, and existing law in which no change is proposed is shown in roman):

TITLE 38, UNITED STATES CODE

* * * * * * *

PART V. BOARDS AND DEPARTMENTS

* * * * * * *

CHAPTER 73—DEPARTMENT OF MEDICINE AND SURGERY

* * * * * * *

§ 4118. Special pay for physicians and dentists

(a)(1) Notwithstanding the provisions of section 4107(d) or any other provision of law, in order to recruit and retain highly qualified physicians and dentists in the Department of Medicine and Surgery, the Administrator, pursuant to the provisions of this section and regulations which the Administrator shall prescribe hereunder, shall provide, in addition to any pay or allowance to which such physician or dentist is entitled, special pay in an amount not more than (A) $22,500 per annum to any physician employed in the Department of Medicine and Surgery, or (B) $10,000 per annum to any dentist so employed, except as provided in paragraphs (2) and (3) of this subsection, upon the execution, and for the duration of a written agreement by such physician or dentist to complete a specified period of service in the Department.

(2) Special pay may not be paid under this section to any physician or dentist who—

(A) is employed on less than a half-time or intermittent basis,

(B) occupies an internship or residency training position, or

(C) is a reemployed annuitant.

(3) The Chief Medical Director, in accordance with such regulations, may determine categories of positions applicable to both physicans and dentists in the Department of Medicine and Surgery as to which there is no significant recruitment and retention problem. Physicans and dentists serving in such positions shall not be eligible for special pay under this section. Not later than one year after making any such recruitment and retention determination and each year thereafter, the Chief Medical Director shall make a redetermination in accordance with such regulations, and, in the event any such determination was made more than one year prior to the date of enactment of this sentence, the Chief Medical Director shall make such redetermination not later than ninety days after such enactment date.

(b) The Administrator [shall] *may* exercise the authority contained in this section to provide—

(1) the maximum amount of such special pay to the Chief Medical Director and Deputy Chief Medical Director;

(2) primary special pay of *an amount not to exceed* $7,000 to any eligible full-time physician, or $2,500 to any eligible full-time dentist, appointed under this chapter; and

(3) a proportional amount of primary special pay of *an amount not to exceed* $7,000 to any eligible part-time physician, or [of] $2,500 to any eligible part-time dentist, appointed under this chapter, which proportional amount shall be calculated on the basis of the proportion which the part-time employment in the Department of Medicine and Surgery of such physician or dentist bears to full-time employment.

* * * * * * *

[No. 36]

COMMITTEE ON VETERANS' AFFAIRS, U.S. SENATE

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., July 13, 1981.

HON. ALAN K. SIMPSON,
Chairman, Committee on Veterans' Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request of May 4, 1981, for the views of this Office on S. 919, a bill "To limit payment of special pay authorized eligible Veterans' Administration physicians and dentists under section 4118, title 38, United States Code, and for other purposes."

This bill is an Administration proposal submitted to the Congress by the Veterans' Administration (VA). It is designed to meet VA's physician requirements through a more flexible and targeted approach than under current law.

Under the bill, an amount equaling 12 percent of the total annual appropriation for remuneration of VA's Department of Medicine and Surgery physicians and dentists would be available for special pay, and the mandatory nature of primary special pay would be eliminated. This approach would give the VA Administrator greater flexibility to use special pay to attract and retain health-care professionals in locations and specialties in which extraordinary recruitment and retention difficulties have been experienced.

We urge prompt and favorable consideration of S. 919, enactment of which would be in accord with the program of the President.

Sincerely,

JAMES M. FREY,
Assistant Director for
Legislative Reference.

(1)

79-180 O—Vets Letter No. 36

II

97TH CONGRESS
1ST SESSION

S. 920

To amend title 38, United States Code, to revise and clarify eligibility for reimbursement of expenses of travel for Veterans' Administration health care, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 8 (legislative day, FEBRUARY 16), 1981

Mr. SIMPSON (by request) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to revise and clarify eligibility for reimbursement of expenses of travel for Veterans' Administration health care, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 111(e)(2) of title 38, United States Code, is amended by—

(1) redesignating clauses (B) and (C) as clauses (C) and (D), respectively, and

(2) inserting the following new clause (B):

"(B) for the first $5, or such sum as the Administrator may determine under this subsection, of the cost of travel to and from a Veterans' Administration facility (as defined in section 601(4) of this title) when a person receives medical care at that facility, except when such care is provided to a veteran for a service-connected disability or to a veteran with a service-connected disability rated at 50 per centum or more;"

SEC. 2. This Act shall become effective on July 1, 1981.

[No. 34]

COMMITTEE ON VETERANS' AFFAIRS, U.S. SENATE

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., July 13, 1981.

Hon. ALAN K. SIMPSON,
Chairman, Committee on Veterans' Affairs, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request of May 4, 1981, for the views of this Office on S. 920, a bill "To amend title 38. United States Code, to revise and clarify eligibility for reimbursement of expenses of travel for Veterans' Administration health care, and for other purposes."

This bill is an Administration proposal submitted to the Congress by the Veterans' Administration (VA) to establish a $5 deductible in reimbursement for travel to and from a VA facility for care for a nonservice-connected condition. This deductible would not apply to veterans' travel for care of a service-connected disability or to veterans with a 50 percent or greater service-connected disability.

It is estimated that nearly half of VA's travel reimbursements are for less than $5. The proposed deductible should not pose undue hardship or be a barrier to care.

We recommend prompt and favorable action on S. 920, which is estimated to save $20 million in fiscal year 1982. Enactment of S. 920 would be in accord with the program of the President.

Sincerely,

JAMES M. FREY,
Assistant Director for
Legislative Reference.

79-180 O—Vets Letter No. 34

II

97TH CONGRESS
1ST SESSION

S. 1058

To amend title 38 of the United States Code to provide for the right of the United States to recover the costs of hospital, nursing home, or outpatient medical care furnished by the Veterans' Administration to veterans for non-service-connected disabilities to the extent that they have health insurance or similar contracts or rights with respect to such care, or have entitlement to private medical care under workers' compensation or automobile accident reparation statutes of any State, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38 of the United States Code to provide for the right of the United States to recover the costs of hospital, nursing home, or outpatient medical care furnished by the Veterans' Administration to veterans for non-service-connected disabilities to the extent that they have health insurance or similar contracts or rights with respect to such care, or have entitlement to private medical care under workers' compensation or automobile accident reparation statutes of any State, and for other purposes.

84-082 O—81——3

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 610 of title 38, United States Code, is amended by adding at the end thereof new subsection (e) as follows:

"(e)(1) Where a veteran is furnished hospital or nursing home care for a non-service-connected disability pursuant to subsection (a) of this section or outpatient medical care for a non-service-connected disability pursuant to subsections (b)(5), (f), (g), and (h) of section 612 of this chapter—

"(A) and such veteran is entitled to care, or reimbursement for the expenses of care under an insurance policy or contract, medical or hospital service agreement, membership or subscription contract, or similar arrangement for the purpose of providing, paying for, or reimbursing expenses for health services; or

"(B) the veteran's illness or injury is so related to his or her employment as to provide entitlement for payment of hospital, nursing home, and medical care by the employer, insurance carrier, or other sources under workers' compensation, or employers' liability, or where entitlement to health care is provided under automobile accident reparation acts, or similar laws of any State; or

"(C) the illness or injury is the result of a crime of personal violence that occurred in a State or politi-

cal subdivision of a State in which a person injured as the result of such a crime is entitled to receive health care and services at such State's or subdivision's expense for personal injuries suffered as the result of such crime,

the United States acting through the Veterans' Administration shall have the right to recover the reasonable value of the care and treatment so furnished or to be furnished to the extent of coverage and/or entitlement described in clauses (A), (B), and (C) of this paragraph and shall, as to this right, be subrogated to any right or claim that the injured or diseased person, his guardian, personal representative, estate, dependents, or survivors has under such coverage and/or entitlement to the extent of the reasonable value of the care and treatment so furnished or to be furnished.

"(2) No contract, arrangement, or entitlement described in the above clauses (A), (B), and (C) entered into, renewed, or accrued after the effective date of this subsection and no State law shall after such effective date exclude the right of the United States to recover the charges or reasonable value for hospital, nursing home, and outpatient care furnished for non-service-connected disabilities pursuant to subsection (a) of this section, and subsections 611(b) and 612(b)(5), (f), (g), and (h) of this title, if such care or charges would be covered under such contract, arrangement, or entitlement when fur-

nished by private facilities. The provisions of this paragraph shall not apply to medicare or medicaid programs.

"(3) The renewal of a contract or arrangement within the meaning of this subsection includes the exercise of an insurer's rights to modify the premiums or coverage of such contract or arrangement and the first opportunity to exercise that right after the effective date of this subsection.

"(4) The amount that may be recovered by the United States under this subsection for care and treatment furnished by the Veterans' Administration shall be at rates determined by the Administrator, except that such rates may not exceed the average rates charged by private medical facilities in the surrounding medical community. However, under appropriate circumstances, the Administrator and the applicable health care carrier may, by agreement, establish a per diem rate to cover the period mutually determined to be suitable for the primary condition being treated.".

SEC. 2. Any moneys collected or received by the Veterans' Administration on behalf of the United States as a result of recovery under this subsection shall be deposited into the Treasury of the United States and shall constitute a special fund account to be known as the "Veterans' Administration Medical Care Recovery Fund", which is hereby appropriated and made available until expended, as the Administrator may direct, to reimburse Veterans' Administration medical care

facilities for the cost of administering this provision, including the medical care and treatment furnished, or to provide such facilities with funds for the purpose of conducting research and education programs. Such moneys shall be in addition to existing congressional appropriations which are made available for "Medical care", and "Medical and prosthetic research", and "Medical administration and miscellaneous operating expenses".

SEC. 3. There is hereby authorized to be appropriated such sums as may be required to provide the necessary personnel and services to carry out the provisions of this Act.

SEC. 4. This Act shall take effect on the first day of the first month which begins ninety days after the date of its approval: *Provided, however,* That this Act shall not prejudice any existing rights of the United States under the contracts, arrangements, and entitlements described in clauses (A), (B), and (C) of section 1 of this Act.

II

97TH CONGRESS
1ST SESSION

S. 1059

To amend title 38, United States Code, to reduce certain disability compensation awards by the value of social security being received by the payees.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to reduce certain disability compensation awards by the value of social security being received by the payees.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That chapter 11 of title 38, United States Code, is amended by inserting after section 355 the following new section:

"§ 356. Limitations on payments based upon individual unemployability

"Where the Administrator has, pursuant to regulations, assigned a total disability rating for compensation purposes

based upon a veteran's individual unemployability, the monthly rate of compensation otherwise payable under this chapter shall not exceed the greater of—

"(1) the rate payable under sections 314 and 315 of this chapter for such total disability, reduced by the value of benefits payable to the veteran under subchapter II of chapter 7, title 42, United States Code; or

"(2) the benefits payable under sections 314 and 315 of this chapter absent the finding of unemployability.".

SEC. 2. The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 355 the following new item:

"356. Limitations on payments based upon individual unemployability.".

II

97TH CONGRESS
1ST SESSION

S. 1060

To amend section 314 of title 38, United States Code, to permit veterans with disabilities rated at either 10 or 20 per centum to elect to receive a single lump-sum compensation payment as an alternative to the existing schedule of monthly compensation payments.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend section 314 of title 38, United States Code, to permit veterans with disabilities rated at either 10 or 20 per centum to elect to receive a single lump-sum compensation payment as an alternative to the existing schedule of monthly compensation payments.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 314 of title 38, United States Code, is amended by adding at the end the following new subsection (u):

"(u) With reference to veterans who are entitled to receive compensation under subsection (a) or (b) of

this section, the Administrator is authorized at his discretion to offer to each such veteran a single lump-sum payment in lieu of all future periodic compensation payments authorized under such subsections. The amount of the lump-sum payment for which a veteran shall be eligible under such offer shall consist of the aggregate amount of compensation, computed according to the compensation rate prevailing at the time the offer is made, to which such veteran would otherwise be entitled during his lifetime, based on sound actuarial projections, which sum shall be computed with a discount for interest at a rate equivalent to the maximum rate of interest for short-term obligations of the United States Government (that is, Treasury bills having a period of maturity of not more than one year) prevailing at the time the offer is made. An eligible veteran shall have sixty days from the date of the offer within which to accept.".

II

97TH CONGRESS
1ST SESSION

S. 1061

To amend section 3105 of title 38, United States Code, to authorize, with respect to persons eligible to receive certain types of retirement pay as well as pension or compensation from the Veterans' Administration, the inclusion of both such categories of benefits in a single periodic payment.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend section 3105 of title 38, United States Code, to authorize, with respect to persons eligible to receive certain types of retirement pay as well as pension or compensation from the Veterans' Administration, the inclusion of both such categories of benefits in a single periodic payment.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3105 of title 38, United States Code, is amended by designating the existing text of section 3105 as subsection (a), and by adding after subsection (a) a new subsection (b) as follows:

"(b) The Veterans' Administration is authorized to enter into an agreement or agreements with such departments, with respect to any person filing a waiver as provided in subsection (a) of this section, containing, but not limited to, the following stipulations:

"(1) The department from which such person is eligible to receive retired or retirement pay shall include within its periodic payments of such pay to such person an amount equal to the amount of pension or compensation which such person is eligible to receive from the Veterans' Administration, so that every person having such dual eligibility shall receive a single payment for each payment period encompassing both categories of benefits;

"(2) Each such joint payment shall be accompanied by a statement clearly identifying the separate parts of such payment attributable to each category of benefits;

"(3) The department issuing such joint payments shall be reimbursed by the Veterans' Administration for the amount of pension and compensation included by such department within such joint payments; and

"(4) The Veterans' Administration shall promptly notify the department issuing such joint payments of

any change in the payee's eligibility to receive pension or compensation.".

II

97TH CONGRESS
1ST SESSION

S. 1062

To amend chapter 23 of title 38, United States Code, to limit non-service-connected burial benefits to veterans with adjusted incomes of $20,000 or less or with a net estate of $200,000 or less.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend chapter 23 of title 38, United States Code, to limit non-service-connected burial benefits to veterans with adjusted incomes of $20,000 or less or with a net estate of $200,000 or less.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That chapter 23 of title 38, United States Code, is amended—

(1) by striking out in section 902(b) "because of the veteran's net assets at the time of the death of such veteran, or";

(2) by adding at the end of section 902 the following new subsection (c):

"(c) Except where a veteran dies of a service-connected disability or is in receipt of (or but for the receipt of retirement pay would have been entitled to) disability compensation at the time of death, the burial allowance shall not be paid in any case where the deceased veteran's adjusted gross income during the year preceding the year of the death of such veteran is greater than $20,000, or where the deceased veteran's net estate at the time of the death of such veteran is greater than $200,000.";

(3) by adding at the end of section 903 the following new subsection (c):

"(c) Except where a veteran dies of a service-connected disability or is in receipt of (or but for the receipt of retirement pay would have been entitled to) disability compensation at the time of death, the benefits provided in subsections (a) and (b)(2) of this section shall not be paid, either in whole or in part, in any case where the deceased veteran's adjusted gross income during the year preceding the year of the death of such veteran is greater than $20,000, or where the deceased veteran's net estate at the time of the death of such veteran is greater than $200,000.".

II

97TH CONGRESS
1ST SESSION

S. 1063

To amend section 906 of title 38, United States Code, to repeal the Administrator's authority to permit reimbursement for the cash equivalent of an official headstone or marker.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend section 906 of title 38, United States Code, to repeal the Administrator's authority to permit reimbursement for the cash equivalent of an official headstone or marker.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 906 of title 38, United States Code, is amended by striking out subsection (d) in its entirety.

II

97TH CONGRESS
1ST SESSION

S. 1064

To amend section 314 of title 38, United States Code, to provide that veterans with service-connected disabilities rated at either 10 or 20 per centum shall be paid compensation on an annual rather than monthly basis.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend section 314 of title 38, United States Code, to provide that veterans with service-connected disabilities rated at either 10 or 20 per centum shall be paid compensation on an annual rather than monthly basis.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 314 of title 38, United States Code, is amended—

(1) by inserting after "$54" in subsection (a) the following: "to be accrued each month and paid in a

single yearly payment to such disabled veteran at the conclusion of each fiscal year;" and

(2) by inserting after "$99" in subsection (b) the following: "to be accrued each month and paid in a single yearly payment to such veteran at the conclusion of each fiscal year;".

84-082 O—81——4

II

97TH CONGRESS
1ST SESSION

S. 1065

To amend title 38, United States Code, to eliminate education loans for veterans.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to eliminate education loans for veterans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title 38, United States Code, is amended—

(1) by repealing section 1686 in its entirety;

(2) by repealing section 1737 in its entirety;

(3) by repealing subsection 1631(d) in its entirety;

(4) by repealing section 1798 in its entirety; and

(5) by repealing section 1799 in its entirety.

II

97TH CONGRESS
1ST SESSION

S. 1066

To amend title 38, United States Code, to limit educational assistance payments under certain circumstances.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 27), 1981

Mr. SIMPSON introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to limit educational assistance payments under certain circumstances.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1661(c) is amended by inserting after the word "months." the following: "Additionally, no eligible veteran shall receive educational assistance after the fifth anniversary of his or her discharge if the veteran's adjusted gross income is greater than $20,000 (or $40,000 if the veteran files a joint Federal tax return) in the preceding year.".

Chairman SIMPSON. If any of my colleagues have any opening remarks, and especially to my good colleague and ranking member of this committee, Senator Cranston, any remarks would be appropriate.

Senator CRANSTON. Thank you. I take that as an endorsement of my remarks.

Chairman SIMPSON. Well, no, not quite.

Senator CRANSTON. Thank you very much.

Al, I believe that scheduling today's hearing on the various cost-savings proposals that are pending in the committee is a very good idea.

In my view, given the broad range of the programs that would be affected by the very significant changes in current law that these proposals would provide, this hearing provides an appropriate opportunity for airing the issues involved in each proposal well before the time at which we will have to make final decisions on any of them.

With regard to the reconciliation process and the committee's expected mandate thereunder to make recommendations for spending reductions in veterans' programs, I see no reason for this committee to undertake any action on any particular cost-savings proposal or package of proposals until it has been finally determined under the first concurrent budget resolution for fiscal year 1982 what the amounts in the reconciliation instructions to the committee on Veterans' Affairs actually and finally are.

As I'm sure everyone is aware, there is no question but that we will receive an instruction in the budget resolution. And if the amounts of required savings are reasonable, that's as it should be. I've long maintained that the VA should not be immune from the Government-wide effort to hold down Federal spending.

Certainly, we should fully consider ways of achieving savings in VA programs that do not have the effect of breaking our national commitment to provide appropriate and adequate services and benefits to those individuals who have served in our Armed Forces and to their dependents and survivors.

However, my efforts on March 12 during our budget markup to achieve a consensus with the majority of the committee on a reasonable, adequate goal for savings in VA programs were rejected. Instead, the majority settled on the goal of finding $325 million in unspecified fiscal year 1982 savings, an arbitrary figure to which I and the other committee members on this side of the table strongly objected.

Thus, I do not feel obligated to find the $325 million in cost savings that the majority, in its March 15 budget views and estimates for fiscal year 1982, recommended to the Budget Committee.

In addition, given the fact that both the House Budget Committee's recommended reconciliation instruction to the Veterans' Affairs Committees as well as the Gramm/Latta substitute proposal include instructions for fiscal year 1982 spending reductions of only $110 million in budget authority and outlays, the House now appears absolutely certain to pass a resolution with reconciliation instructions in that amount.

In light of the administration's support of the Gramm/Latta substitute, I think it is quite clear that this committee will receive

an instruction with cost-savings levels totaling nowhere close to $325 million, let alone the savings of $446 million in budget authority and $407 million in outlays that the Senate itself approved in Senate Concurrent Resolution 9, levels which I three times specifically voted against because I believed them excessive, arbitrary, and unfair, just as I voted against the resolution itself on final passage.

However, when the amount of the instruction is finally determined by the full Congress, I will be willing to participate in an effort, as part of the reconciliation process, to recommend specific cost-savings measures that I believe are reasonable, realistic, and fair.

Thus, I will be reviewing the pending cost-savings proposals very carefully in light of the testimony of today's witnesses.

In closing, I would note that I am very pleased that veterans' organizations have chosen to participate actively in this cost-savings process. Their comments are most welcome and very helpful to us. Since I must attend a Foreign Relations Committee hearing, I will be submitting written questions to the witnesses. It's a markup that I can't miss at the Foreign Relations Committee.

That concludes my statement. I thank each and all of you, and you, Mr. Chairman, very much.

Chairman SIMPSON. Thank you, Al, and your questions will be submitted at the appropriate time as you would request.

I believe Senator Thurmond had a brief opening statement, and we will hear from him. At this time the witnesses might arrange themselves.

We've had a little shift in the cast of characters. So, Robert Coy, Dr. A. S. Aaronian, Chuck Yarborough, and Ms. Marjorie Quandt, please.

At this point in the proceeding I would recognize Senator Thurmond, a most extraordinary contributing member of this committee.

Senator THURMOND. Thank you, Mr. Chairman.

Mr. Chairman, today the Senate Committee on Veterans' Affairs will consider legislation that is designed to achieve—Mr. Chairman, to save time, I can just put my statement in the record.

Chairman SIMPSON. Without objection, it is so ordered.

[The prepared statement of Senator Strom Thurmond follows:]

PREPARED STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman, today the Senate Committee on Veterans' Affairs will consider legislation that is designed to achieve $325 million in cost savings that this Committee has been mandated to achieve as a result of the reconciliation process, S. Con. Res. 9, which passed the Senate last month.

The bills before this Committee cover a wide range of programs and benefits within the Veterans' Administration. These legislative initiatives would terminate VA reimbursement for flight training and correspondence courses; eliminate outpatient dental treatment for certain veterans; limit special pay for VA physicians; limit travel pay; offset compensation by Social Security received by certain veterans; provide lump sum payment for 10 and 20 percent disabled veterans; limit certain burial benefits; terminate certain education benefits; and, provide for health-care recovery from private insurers.

Mr. Chairman, we certainly have a long list of cost-savings legislation to consider and I look forward to the testimony we will receive. It is my hope that any action that is taken will not jeopardize essential services to veterans.

Chairman SIMPSON. I also have an opening statement of Senator Bob Stafford of the committee, and would ask that it be entered into the record without objection.

[The prepared statement of Senator Robert T. Stafford follows:]

PREPARED STATEMENT OF HON. ROBERT T. STAFFORD, A U.S. SENATOR FROM THE STATE OF VERMONT

Mr. Chairman, I join in extending a warm welcome to all of the witnesses present for this hearing concerning various proposals to save funds in Veterans' Administration programs. Your assistance to the members of our Senate Committee on Veterans' Affairs is always appreciated and especially appreciated at a time like this when our attention is directed toward control of the growth of governmental spending.

Prior to submission of this Committee's March 15 budget letter to the Budget Committee we decided to consider cost savings in order to achieve spending levels within the VA as proposed by the President for fiscal year 1982. The purpose of today's hearing is to give careful consideration to various cost-savings proposals. Some of these proposals have been previously proposed and rejected. Some would result in very little savings. All of them, however, should receive the attention of this Committee.

Members of our Committee recognize the need of every department and agency of the Federal Government to help in reducing Federal spending. We are also committed to the support of maintaining a strong Veterans' Administration with adequate and excellent programs and benefits for our veterans, their survivors and dependents.

Chairman SIMPSON. I think you are aware of the need to limit the oral presentation to a very brief summary. Your written testimony, of course, will be appearing in full in the record of the committee and the committee will rely on that in its deliberations, and would ask you to sincerely follow the time limitations so that we might give fair and adequate attention to all the presentations and still have time for questions.

Whenever you are ready, Mr. Coy.

TESTIMONY OF ROBERT E. COY, ACTING GENERAL COUNSEL, VETERANS' ADMINISTRATION, ACCOMPANIED BY DR. A. S. AARONIAN, ASSISTANT CHIEF MEDICAL DIRECTOR FOR DENTISTRY; CHARLES V. YARBOROUGH, DIRECTOR OF MANAGEMENT SUPPORT SERVICES, DEPARTMENT OF MEDICINE AND SURGERY; AND MS. MARJORIE QUANDT, ASSISTANT CHIEF MEDICAL DIRECTOR FOR ADMINISTRATION

Mr. COY. Thank you, Mr. Chairman.

Before proceeding, I would like to identify those accompanying me this morning. At my far right, Dr. Albert Aaronian, the assistant chief medical director for dentistry; to my immediate right, Ms. Marjorie Quandt, assistant chief medical director for administration; and to my left, Mr. Chuck Yarborough, the director of management support services in the department of medicine and surgery.

We are pleased, Mr. Chairman, to be here this morning to discuss a number of measures with you relating generally to cost savings. I must be candid and say that there are times when it is easier to come forward and present the views of an administration than it might be in connection with cost-savings matters.

Yet, in the light of current economic conditions we believe it was our responsibility to look for areas in which cost savings could be achieved. I would also like to say that in considering the measures being discussed today, we tried to look at our entire budget and

find ways to save in a manner that is not heartless. We are concerned that we meet our obligations to veterans and we're concerned that we carry out that obligation in a prompt and proper manner.

We believe, however, that the measures that we have proposed, S. 916, S. 919 and S. 920, do contain the proper balancing of these objectives although I must admit that there are times that reasonable minds will differ on these types of proposals.

The first proposal under consideration, S. 916, would eliminate the provision of outpatient dental treatment for service-connected noncompensable dental conditions that are generally unrelated to service trauma of prisoner-of-war status.

Now under current law, if an individual released from military service applies within 1 year from the date of his release from service, he is authorized to receive outpatient dental services and treatment. Generally, the conditions involved are minor and were most likely present during service.

What probably occurred is that he either did not present himself for care or for some reason did not present himself in a timely manner so that the care was not completed. Under current law, that individual would have 1 year in which his care could be provided by the Veterans' Administration.

Under the present circumstances, we have taken a hard look at that program and believe we cannot justify the funds that are necessary to carry out that commitment. We believe the care involved should be provided by the Department of Defense.

Our second proposal, S. 919, would establish a limitation on funds available for special pay for physicians and dentists in the department of medicine and surgery to basically 12 percent of the total annual appropriation for remuneration of all physicians and dentists.

I might add at this point, Mr. Chairman, that S. 919, as currently introduced, apparently had a problem with the printer. The draft proposal that we submitted contained two pages, and S. 919 only contains the first page of our draft proposal.

The provisions not included in the bill had an effective date of July 1 of 1981, and a provision under which the primary special pay, which is now mandatory, would become permissive so the chief medical director could pay the entire $7,000 of primary pay, if he chose, to attract certain types of individuals. But he could also pay a lesser amount.

We would request that a new bill introduced, or at least the committee be aware of the drafting problem.

[Subsequently, the Veterans' Administration submitted the following information:]

(b) The provisions of this section shall take effect on July 1, 1981.

SEC. 3. (a) Subsection (b) of section 4118 of title 38, United States Code, is amended by—

(1) striking out "shall" the first time it appears and inserting in lieu thereof "may";

(2) inserting "an amount not to exceed" after "of" in paragraph (2); and

(3) inserting "an amount not to exceed" before "$7,000" and striking out "of" before "$2,500" in paragraph (3).

Chairman SIMPSON. Thank you very much.

Mr. Coy. The current rates of special pay for physicians and dentists in the department of medicine and surgery were established by Public Law 96-330 in August 1980. At that time, there were substantial increases in the amount of bonuses that were payable, to a maximum of $27,500.

At this point, lest there be some misconstruction of the amount that is normally paid, I should point out that there are only 68 people in fact that are getting in excess of $22,500. And the average that's paid for full-time service is $17,210.

Now as you are aware, Mr. Chairman, the special pay provision in the last Congress was vetoed. It was vetoed on the basis of a concern by the administration that the amount of increase might have been excessive, and it was vetoed also on the basis of a belief by the Department of Defense that the proposals would put the Veterans' Administration in a more competitive mode than the Department of Defense.

Obviously, reasonable minds can differ on that issue with respect to competition with the DOD. The current proposal, however, would certainly moot the issue. I must acknowledge that any cut in pay, whatever it might be, or any cap, has some morale impact.

I have to admit that every time the Congress takes action, which I knew it must take, to cap my own salary, it has had some impact on my morale. But yet we continue to understand the need for it. So this proposal, obviously, will have some impact on morale.

We believe, however, it is necessary in light of the current economic conditions. All Americans must share in the program to meet these economic problems.

It is our view that D.M. & S.'s basic needs in recruitment and retention, particularly in scarce speciality areas and in certain geographic regions, can, in fact, still be accomplished even in the light of the cutback. They still will be authorized to pay the full amount of $27,500 in those areas where the chief medical director believes it is essential to attract key people. He would, however, have to cutback in other areas in order to achieve the 12-percent cap.

The total amount of savings in this proposal would be approximately $40 million.

The next proposal I would like to comment on is S. 920, which would revise the authority we now have to pay beneficiary travel benefits to veterans who are traveling to and from their homes and hospitals for the purpose of medical care.

Under current law, travel benefits are an integral part of medical care, and the theory behind it was to assure that we did not deprive a veteran of the possibility of getting to the hospital and obtaining the care that he much needed and deserved.

Throughout the years, however, the amount of funds expended for this purpose has escalated to such an extent that it causes great concern as to whether that benefit is warranted in the light of other needs we have for funds. Let me give you some examples.

We have found that 67 percent of the non-service-connected veterans who receive beneficiary travel benefits receive an amount of less than $5. And I think it's about 17 to 18 percent of these non-service-connected veterans who receive an amount of less than $1. We, therefore, believe the proposal that's before you, which would

cut back beneficiary travel by providing that the first $5 of the benefit not be paid, has merit.

We believe this cutback can be achieved and still not deprive veterans of the ability to get to and from the hospitals for necessary medical care. And that is the proposal contained in S. 920.

I'm trying to summarize, pursuant to your request.

Chairman SIMPSON. If you would, please, we appreciate that.

Mr. COY. There are two additional provisions which we did not propose which involve authority to obtain reimbursement for medical care provided in VA facilities. The first provision is contained in section 2 of S. 636.

In effect, it would allow the Veterans' Administration to recover the cost of care of care furnished under circumstances where the individual veteran was covered by a workmen's compensation plan, a no-fault insurance plan, or is within a State where the medical expenses of victims of crimes are paid for.

We have been involved, for many years, in a program to recover the costs of care provided under these types of circumstances. We've done it under the basic State laws involved, and we've done it also under the Federal Medical Care Recovery Act.

The amount of funds actually collected now are somewhere in the area of $10 million a year. I might add that we have had very little problem in most States in connection with these three provisions. There are only two States that have problems with respect to no-fault insurance; there are only six States that have problems with respect to workmens' compensation; and there are only nine States that have problems with respect to crime victims.

In all other States, we are now already recovering these costs. This provision would merely equalize the ability to recover in all States and, in effect, provide that the State laws or their various policies could not prohibit payment to VA hospitals where care was furnished.

On this particular provision, the administration has not yet had a chance to look at it on the question of whether or not it wishes to support legislation to preempt State laws.

That's an issue that they would like to take a further look at. We are, therefore, requesting that the committee defer action on this proposal until the Veterans' Administration has a new Administrator and the new Administrator has had a chance to look at this issue of preempting State law.

The second matter, which is somewhat similar, S. 1058, contains provisions similar to those I just talked about. In addition, it would authorize payment to care furnished in VA hospitals where the individual veteran had private medical insurance.

Specifically excluded from S. 1058 would be programs under medicare and medicaid. Basically, it would only apply to those cases in which there were private policies which now have clauses excluding payment for care furnished by Government facilities.

The bill as drafted would not apply to existing policies. It would only apply prospectively so that current insurance contracts would not be affected. It would only apply to care furnished for non-service-connected conditions.

In addition, there are some simplified procedures involving billing. It provides, for example, that the amount of the bill to be paid

by the insurance company could not exceed the average cost of similar care provided in the community. Questions have been raised in the past as to whether care was more expensive in a VA hospital, and whether certain cost containment measures should be applied. It's my understanding that the drafters of this legislation have overcome those concerns.

There's also a provision that says that if the insurance industry and the Administrator wish to work out some agreement for a per diem payment, they could do that. I might add that there has also been another question raised with respect to the constitutionality of this type of proposal, and whether due process is provided.

We could get into a long discussion on that. I could only add that the Department of Justice has looked at this type of proposal last year and indicated that in their opinion this is a constitutional measure and would stand up to any court challenge, which obviously could evolve.

The total amount of money that would be recovered is a little difficult to estimate. In the last 4 or 5 days, since we had this measure, we have tried to do a cost analysis. We really believe that analysis needs to be perfected further, because there are some issues that we have not had a chance to take a hard look at.

We believe the cost savings, however, would be substantial. The thing that we need to take a look at is the effect of the provisions passed last year authorizing us to go behind the oath, and take a look at private insurance policies. We need to determine how that would reduce our recoveries under this bill.

We think it would reduce it some. However, many veterans who come into our hospitals now with insurance have deductibles, only partial insurance, time limited insurance, or insurance that may be exhausted.

We believe, therefore, that there are going to be many people who will still be able to take the necessary oath, be eligible for care in VA facilities, and who have private insurance but whose private insurance would not be adequate to preclude their furnishing care. Under this provision, we would be able to recover the cost of that care from the insurance industry.

Now, Mr. Chairman, assuming that sufficient resources are provided, because, obviously, there will be some increases in administrative responsibilities in implementing this, and assuming it's perfectly clear that the Administrator of VA retains authority for determining the quality of care in VA facilities, we have no objection to this enactment and support it.

Mr. Chairman, that basically concludes my statement. We are, as I indicated earlier, pledged to our commitment to continue to find ways to tighten up, to avoid waste, to achieve economies. At the same time, we cannot reduce our obligations to provide adequate care to veterans and to assure that the benefits that are provided by the Congress are carried out and provided in a proper manner.

Chairman SIMPSON. Thank you very much, Mr. Coy.

And, indeed, I think that the new veterans' Administrator will be faced, as Max Cleland was, with the same thing, trying to be responsible and careful and cautious and interested in benefits for veterans as well as savings to the taxpayers.

And that falls directly in the line of fire of those who do not share the view that there should be a cutting back process. And that's going be the tough one, because I think that for the first time there's going to be a great deal of attention paid to the fourth largest agency budget in the United States of America.

Suddenly we are confronted with the reality of a $23.6 billion budget. And largely, it has just been winging along for many years because of benefits and compensation and cost-of-living increases, and we have never really addressed issues like eligibility and need. I realize these are horrible things to bring up, but they are things that are going to be addressed by this Committee in the future.

We will also address the VA's role in providing benefits for non-service-connected disabled—a role which seems to me to diverge slightly from the original mission of the VA, which was service-connected disabled, and their widows and their orphans.

Some of these cost-savings measures are painful, some we obviously will not enact, but some we will. Let me just ask you several questions.

On the subject of S. 916, which relates to dental benefits, there are indications that dental treatment is often delayed or avoided for various reasons during an individual's active service on an understanding that the VA would provide the same service after discharge.

Other than passing this legislation, what might we do to insure that active service members will receive the full range of dental treatment authorized under the law in a way that neither patient nor dentist will be tempted to forego the appropriate treatment before discharge?

Mr. COY. Probably the person to answer that is the Department of Defense. I would only add that they are not heartless. I'm sure that if the point came when it was clear that they had an obligation to provide necessary care, whether they did it directly or through some type of fee basis arrangement, I'm sure they would carry out their obligation.

The problem now is that they're aware, as are most of the service people, that they really don't need to follow through on that obligation because during that first year the Veterans' Administration will take over. So once the responsibility was placed on them, I believe they would carry it out.

Chairman SIMPSON. Do you have any suggestions as to how that might be best carried out? Anything new to suggest to us?

Mr. COY. No, I really don't. I would rather defer that question to them. There are some in the past who have said that to assure you don't have a situation where the veteran was not caught in a catch-22-type situation, where resources just are not there, you might come up with some type of a certification to assure that the benefit was provided by the military.

I've talked to the staff a little bit about that. I think there's some way that you might be able to assure that the service person was not caught in between.

Chairman SIMPSON. Thank you.

With reference to S. 919, concerning physicians bonuses, OMB determined that before enactment of Public Law 96-330, that the VA physician vacancy rate was somewhere between 1.4 and 3.9

percent. Can you advise me whether that vacancy rate has subsequently improved as a result of that legislation?

Mr. COY. I'll let Mr. Yarborough answer that. I think that the timeframes involved are such that we have not noted significant changes in trends, although we've noticed some slight changes. I think that the trend would show since the enactment of the increased bonuses, a slight improvement in our situation. And I think we would anticipate possibly a slight breakdown in the trend in the future. But its speculative. Mr. Yarborough, do you have any comment on that?

Mr. YARBOROUGH. The exact vacancy rate figure I would like to supply for the record is in the vicinity of 6 percent. I think that Mr. Coy's statement to the effect that we have not been under Public Law 96-330 sufficiently long to detect any trends that we could rely on is absolutely true.

Chairman SIMPSON. It would be appreciated if you would continue to monitor that and also inform me or the Committee if you have any clear indications of whether the enactment of that legislation has resulted in any higher level of VA physician skill or competence, which was another issue that arose in the deliberations.

And let us know what you're hearing about attraction of hard-to-obtain specialists, changes in the level of experience of VA physicians, and comments from patients which, of course, would be an indication of physician competence and quality of medical treatment. If you would furnish those we would appreciate it.

Mr. COY. We'll be happy to.

[Subsequently, the Veterans' Administration submitted the following information:]

The attached tables show full-time and part-time vacancies by specialty for the quarters ending December 31, 1980, and March 31, 1981. Physician vacancies shown in these tables meet all of the following criteria:

(a) The vacancy has been budgeted.

(b) Funds are available to hire a physician if one is found to fill the budgeted vacancy.

(c) Active recruitment efforts are underway at the end of the reporting quarter to fill the vacancy, or the vacancy is one for which a commitment to hire a physician has been made but that particular physician will not report for duty until after the end of the reporting quarter.

This definition excludes contract physician positions as vacancies unless the VA health-care facility in question is actively recruiting regular physician staffing in contemplation of reducing or terminating contract physician services in a particular physician specialty assignment. Such contracts for physician services exist because of difficulties in hiring and maintaining a regular physician staff in these physician specialties. This definition also excludes active physician recruitment efforts and physician commitments to hire (1) for anticipated vacancies and/or (2) for anticipated increases in the number of physicians staffed at particular VA health-care facilities.

VETERANS' ADMINISTRATION PHYSICIANS BY SPECIALTY ASSIGNMENTS

Specialty assignment	Number on duty at end of year		Number of vacancies at end of year		Total on duty plus vacancies		Vacancies as percent of total (vacancy rate)		Average number of months per vacancy	
	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981
FULL TIME										
Surgical specialties:										
Anesthesiology	171	174	25	23	196	197	12.8	11.7	9.6	13.1
Colon and rectal	1	1	.....	.....	1	1	.....	.....	.....	.....
General	358	363	35	33	393	396	8.9	8.3	6.2	8.7
Gynecology	1	1	.....	.....	1	1	.....	.....	.....	.....
Neurological	12	12	2	4	14	16	14.3	25.0	43.5	24.3
Ophthalmology	32	31	3	3	35	34	8.6	8.8	19.7	8.3
Orthopedic	72	70	19	11	91	81	20.9	13.6	19.1	20.9
Otolaryngology	29	30	5	5	34	35	14.7	14.3	25.0	20.2
Plastic	2	3	.....	.....	2	3	.....	.....	.....	.....
Thoracic	30	32	2	3	32	35	6.3	8.6	9.0	8.3
Urology	73	77	11	8	84	85	13.1	9.4	5.0	8.9
Subtotal	781	794	102	90	883	884	11.6	10.2	11.4	12.6
Medical specialties:										
Allergy and immunology	7	7	1	.....	8	7	12.5	.....	3.0	.....
Cardiovascular diseases	181	182	17	20	198	202	8.6	9.9	11.6	11.0
Clinical scholar	10	9	1	.....	11	9	9.1	.....	13.0	.....
Dermatology	23	26	4	3	27	29	14.8	10.3	7.8	10.3
Endocrinology and metabolism	64	63	1	2	65	65	1.5	3.1	10.0	7.0
Family practice	31	30	4	3	35	33	11.4	9.1	2.3	5.3
Gastroenterology	100	102	8	8	108	110	7.4	7.3	23.5	21.4
General internal medicine	1,135	1,144	65	63	1,200	1,207	5.4	5.2	6.6	6.9
General practice	11	11	1	3	12	14	8.3	21.4	1.0	2.0
Hematology	87	88	3	3	90	91	3.3	3.3	11.0	14.0
Infectious diseases	62	63	8	8	70	71	11.4	11.3	9.8	12.0
Medical oncology	13	12	7	8	20	20	35.0	40.0	11.3	12.9
Nephrology	89	92	8	7	97	99	8.2	7.1	4.8	7.0
Preventive medicine	2	3	.....	.....	2	3	.....	.....	.....	.....
Pulmonary diseases	174	176	19	18	193	194	9.8	9.3	14.5	16.8
Rheumatology	31	33	4	4	35	37	11.4	10.8	9.0	10.3

VETERANS' ADMINISTRATION PHYSICIANS BY SPECIALTY ASSIGNMENTS—Continued

Specialty assignment	Number on duty at end of year		Number of vacancies at end of year		Total on duty plus vacancies		Vacancies as percent of total (vacancy rate)		Average number of months per vacancy	
	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981
FULL TIME—Continued										
Medical specialties—Continued										
Other medicine	540	528	12	20	552	548	2.2	3.6	8.6	6.4
Subtotal	2,560	2,569	163	170	2,723	2,739	6.0	6.2	9.4	9.7
Psychiatry and neurology:										
Neurology	169	172	17	16	186	188	9.1	8.5	9.6	11.3
Psychiatry	1,132	1,165	77	52	1,209	1,217	6.4	4.3	8.3	10.1
Substance abuse	6	4	1	1	7	5	14.3	20.0	13.0	15.0
Subtotal	1,307	1,341	95	69	1,402	1,410	6.8	4.9	8.6	10.4
Pathology:										
Anatomic	18	19	3	3	21	22	14.3	13.6	12.0	15.0
Clinical	14	15	3	3	17	18	17.6	16.7	9.7	12.7
Pathology	393	598	22	22	415	420	5.3	5.2	12.2	10.3
Subtotal	425	432	28	28	453	460	6.2	6.1	11.9	11.1
Radiology:										
Diagnostic	289	296	35	23	324	319	10.8	7.2	13.3	19.4
Diagnostic and therapeutic	119	117	7	3	126	120	5.6	2.5	24.7	24.4
Therapeutic	26	26	1	8	27	34	3.7	23.5	6.0	4.3
Subtotal	434	439	43	34	477	473	9.0	7.2	15.0	16.3
Other specialties:										
Geriatric fellow	31	31	.....	.....	31	31	.....	.....	.....	.....
Nuclear medicine	86	86	8	9	94	95	8.5	9.5	12.0	13.2
Paraplegia	38	37	5	8	43	45	11.6	17.8	11.0	14.4
Physical medicine	216	226	19	10	235	236	8.1	4.2	10.5	10.8
Spinal cord injury fellow	8	8	.....	1	8	9	.....	11.1	.....	2.0
Subtotal	379	388	32	28	411	416	7.8	6.7	11.0	12.3

Research:										
Clinical investigative	21	23			21	23				
Research	70	64			70	64				
Research and education associate	63	65			63	65				
Subtotal	154	152			154	152				
Administrative:										
Admitting	191	189	2	3	193	192	1.0	1.6	3.0	3.3
Chief of staff	163	164	5	9	168	173	3.0	5.2	4.8	3.7
Chief of staff-trainee		1				1				
Assistant chief of staff	11	10	1	1	12	11	8.3	9.1	8.0	11.0
Associate chief of staff—ambulatory care	52	53	1	2	53	55	1.9	3.6	15.0	12.0
Associate chief of staff—education	38	41	5	4	43	45	11.6	8.9	12.8	18.3
Administrative:										
Associate chief of staff—research and development	39	41	4	3	43	44	9.3	6.8	31.5	43.0
Director	6	5			6	5				
Physicians in VACO	48	49			48	49				
Other physicians	36	36		1	36	37		2.7		2.0
Subtotal	584	589	18	23	602	612	3.0	3.8	13.5	12.3
Total	6,624	6,704	481	442	7,105	7,146	6.8	6.2	10.5	11.5
PART TIME										
Surgical specialties:										
Anesthesiology	78	75	13	12	91	87	14.3	13.8	8.5	11.8
Colon and rectal	3	3			3	3				
General	415	409	24	23	439	432	5.5	5.3	10.5	11.0
Gynecology	5	5	1		6	5	16.7		2.0	
Neurological	97	97	9	6	106	103	8.5	5.8	19.9	30.2
Ophthalmology	184	181	4	7	188	188	2.1	3.7	7.8	8.3
Orthopedic	214	225	15	10	229	235	6.6	4.3	11.1	13.1
Otolaryngology	135	154	10	11	165	165	6.1	6.7	12.3	12.5
Plastic	70	69	4	6	74	75	5.4	8.0	11.5	12.3

VETERANS' ADMINISTRATION PHYSICIANS BY SPECIALTY ASSIGNMENTS—Continued

Specialty assignment	Number on duty at end of year		Number of vacancies at end of year		Total on duty plus vacancies		Vacancies as percent of total (vacancy rate)		Average number of months per vacancy	
	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981	Dec. 31, 1980	Mar. 31, 1981
PART TIME—Continued										
Surgical specialties—Continued										
Thoracic	88	88	9	8	97	96	9.3	8.3	11.3	15.0
Urology	164	160	9	9	173	169	5.2	5.3	12.3	14.4
Subtotal	1,473	1,466	98	92	1,571	1,558	6.2	5.9	11.5	13.3
Medical specialties:										
Allergy and immunology	22	24	1	1	23	25	4.3	4.0	5.0	5.0
Cardiovascular diseases	126	130	12	10	138	140	8.7	7.1	10.2	12.0
Dermatology	86	87	6	7	92	94	6.5	7.4	13.0	13.1
Endocrinology and metabolism	60	63	3	2	63	65	4.8	3.1	7.3	9.3
Family practice	8	9	.....	.....	8	9	.....	.....	.....	.....
Gastroenterology	99	99	5	5	104	104	4.8	4.8	9.4	12.2
General internal medicine	344	342	26	27	370	369	7.0	7.3	7.7	9.9
General practice	3	4	.....	.....	3	4	.....	.....	.....	.....
Hematology	74	73	3	2	77	75	3.9	2.7	7.7	12.5
Infectious diseases	52	55	1	1	53	56	1.9	1.8	18.0	22.0
Medical oncology	24	24	4	7	28	31	14.3	22.6	5.0	6.9
Nephrology	73	70	3	3	76	73	3.9	4.1	12.3	15.3
Preventive medicine	4	4	.....	.....	4	4	.....	.....	.....	.....
Pulmonary diseases	89	89	7	10	96	99	7.3	10.1	8.6	8.5
Rheumatology	54	54	.....	.....	54	54	.....	.....	.....	.....
Other medicine	267	269	8	5	275	274	2.9	1.8	10.9	15.2
Subtotal	1,385	1,396	79	80	1,464	1,476	5.4	5.4	9.1	10.8
Psychiatry and neurology:										
Neurology	210	204	12	11	222	215	5.4	5.1	6.7	6.7
Psychiatry	785	763	39	34	824	797	4.7	4.3	5.9	6.9
Subtotal	995	967	51	45	1,046	1,012	4.9	4.4	6.1	6.9

Pathology:										
Anatomic	12	12			12	12				
Clinical	2	2			2	2				
Pathology	122	122	12	13	134	135	9.0	9.6	9.9	11.7
Subtotal	136	136	12	13	148	149	8.1	8.7	9.9	11.7
Radiology:										
Diagnostic	118	121	12	10	130	131	9.2	7.6	9.0	6.9
Diagnostic and therapeutic	55	51	1	3	56	54	1.8	5.6	2.0	2.3
Therapeutic	9	8	1	1	10	9	10.0	11.1	13.0	16.0
Subtotal	182	180	14	14	196	194	7.1	7.2	8.8	6.6
Other specialties:										
Nuclear medicine	52	52	2	2	54	54	3.7	3.7	12.0	15.0
Paraplegia	7	7			7	7				
Physical medicine	79	72	4	6	83	78	4.8	7.7	7.5	9.0
Subtotal	138	131	6	8	144	139	4.2	5.8	9.0	10.5
Research:										
Clinical investigative	1	1			1	1				
Research	8	8			8	8				
Subtotal	9	9			9	9				
Administrative:										
Admitting	32	26	1	1	33	27	3.0	3.7	2.0	1.0
Chief of staff	10	8			10	8				
Assistant chief of staff	3	3			3	3				
Associate chief of staff—ambulatory care	6	6			6	6				
Associate chief of staff—education	14	12	1	1	15	13	6.7	7.7	16.0	19.0
Associate chief of staff—research and development	26	25	1		27	25	3.7		24.0	
Other physicians	12	12			12	12				
Subtotal	103	92	3	2	106	94	2.8	2.1	14.0	10.0
Total	4,421	4,377	263	254	4,684	4,631	5.6	5.5	9.5	10.8

Chairman SIMPSON. Section 104 of Public Law 96-330 requires the Administrator to perform biennial comparability analysis with non-VA physicians. Is that study presently forthcoming, in order that we might fully appreciate the impact of the bill, at least as we review the legislative intent of it?

Mr. COY. That study is due December 31, 1982. Some preliminary data has been put together and some ideas have been formulated as to how best to fulfill that obligation. We're not wading in the middle of it yet.

Chairman SIMPSON. When you wade right into it, let us have what you find.

Mr. COY. We'll be happy to.

Chairman SIMPSON. I was interested, very interested in your comments on beneficiary travel. Sixty-seven percent of those who apply have a claim of less than $5, is that correct?

Mr. COY. Forty-eight percent of the non-service-connected veterans.

Chairman SIMPSON. Non-service-connected?

Mr. COY. That's correct.

Chairman SIMPSON. And, of course, for service connected there is no proposal to reduce beneficiary travel reimbursement. I think that is the thing that we're going to keep pulling people back to in the deliberations of this committee. This difference between the non-service-connected disabled and the service-connected disabled.

Let me ask you, what if you were to take that figure to $10, where would the claims fit if we were to take it to $6 or $7 or $10?

Ms. QUANDT. Mr. Chairman, if we were to pay a claim at an average to $6 or less, we would cover 55 percent of the service-connected veterans. At an average claim of $10, 72.5 percent of service-connected veterans would be covered for nonservice connected at $6, it's 54.2 percent. Those are average payments.

At $10 average payment, we have only 25.6 percent nonservice connected remaining to make up 100 percent. This is taken from a sample which was run on 1 month in fiscal year 1980.

Chairman SIMPSON. Have you any estimate of the savings on those higher levels of nonexclusion?

Ms. QUANDT. The savings would be very low because of the small percent covered.

Chairman SIMPSON. Additional savings?

Ms. QUANDT. Additional savings?

Chairman SIMPSON. Yes.

Ms. QUANDT. May we supply that for the record?

Chairman SIMPSON. Yes, if you would, please. That would be helpful. If you have some type of graph or table showing a distribution curve there, that would be appreciated by the committee.

[Subsequently, the Veterans' Administration submitted the following information:]

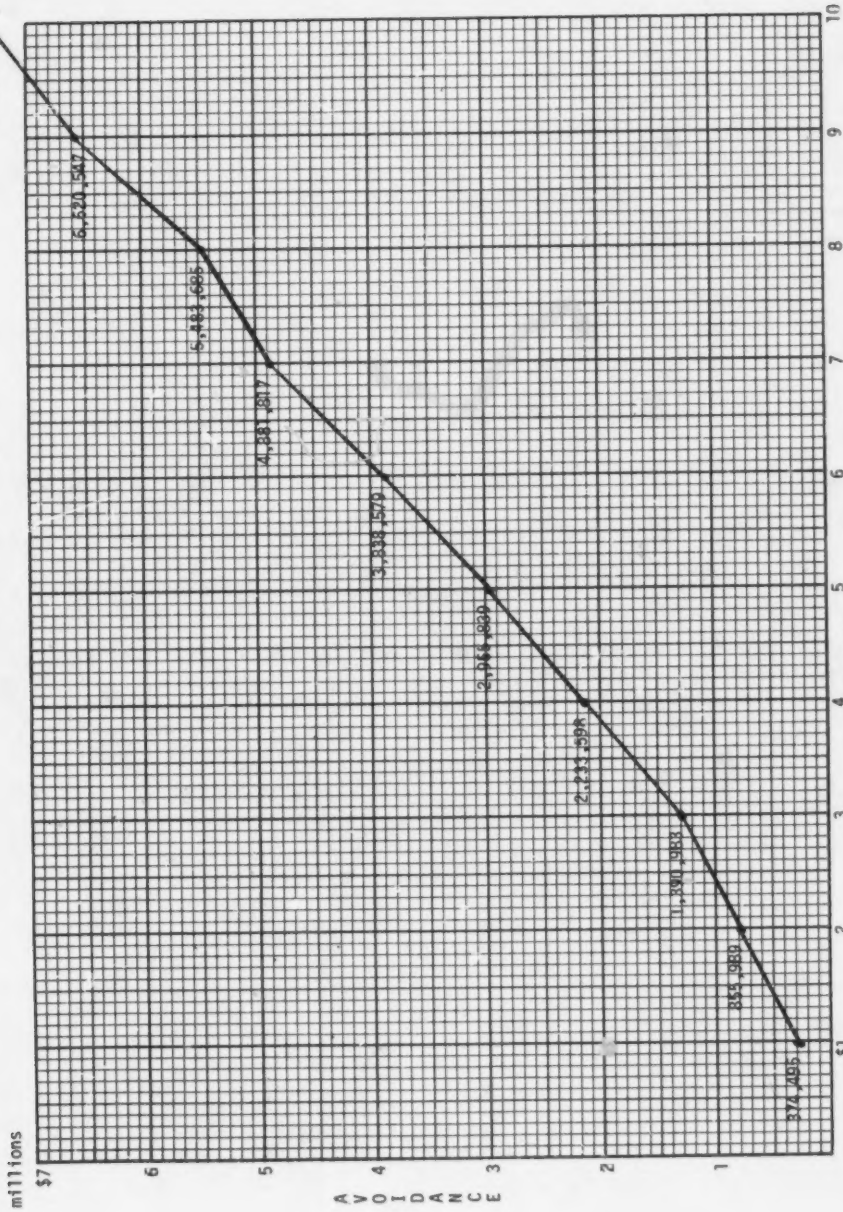
The attached graph represents the projected potential cost avoidance of a deductible applied to claims from non-service-connected veterans and to service-connected veterans who are treated for a non-service-connected disability. Our data indicates a maximum of 2,955,839 avoidance at a $5 deductible and a maximum of $7,637,035 at a $10 deductible. The data is derived from a recently completed statistical analysis of our Beneficiary Travel Program. This study shows a distribution of the total claims filed as follows:

$1 or less	Percent	Cumulative percent
1	14	14
2	12	26
3	8	34
4	9	43
5	6	49
6	6	55
7	6	61
8	3	64
9	5	69
10	4	73

The remaining 27 percent reflect those paid claims that exceed $10. Approximately cost avoidance can be projected as follows:

Deductible range	Percent of total claims	Avoidance	Cumulative avoidance
$11 to $15	8.5	2,674,990	10,272,025
$16 to $20	5	2,340,598	12,612,623
$21 to $25	3	1,805,604	14,418,227
$26 to $50	5	5,015,568	19,433,795
$51 to $75	1.5	1,805,604	21,239,399
$76 to $100	1	2,340,598	23,579,997

As the above table illustrates, in order to achieve a $20 million cost avoidance, we would require at least a $50 deductible.


7,637,035
6,620,547
5,481,685
4,881,817
3,838,579
2,966,889
2,233,998
1,590,983
855,989
874,495
millions
$7
6
5
4
3
2
1
AVOIDANCE
$1
2
3
4
5
6
7
8
9
10
DEDUCTIBLE

Chairman SIMPSON. Am I correct in assuming that there is a tremendous administrative burden in processing that many claims of under $5? Where are we with regard to the administrative expenses of that?

Ms. QUANDT. Your question, Mr. Chairman, is if we implement the $5 savings?

Chairman SIMPSON. No. Where are we right now if we process an extraordinary number of claims under $5?

Ms. QUANDT. The cost right now for claims of half of the travel pay under $5 are rather great because of the travel clerks involved in interviewing patients and the agent cashiers who must pay out the actual money. Some hospitals, in an effort to save funds or conserve funds, have assigned a third person who functions as an ombudsperson, you might say, and actually interviews the veteran each time he comes for payment. There are considerable administrative costs.

Chairman SIMPSON. I would certainly think there would be. Is there a way that you could begin to furnish an estimate of man/woman hours involved in that type of process which calls for interviewing and check-issuing clerks and so on, when we're talking about reimbursement for a figure under $5? That would be very helpful.

[Subsequently, the Veterans' Administration submitted the following information:]

The administrative costs associated with beneficiary travel at our VAMC's at this time approximates $5,300,000. This represents a FTEE of 428 at an average grade of GS-4, step 5. All health-care facilities have an agent cashier and travel clerk. In addition, approximately 82 VAMC's have additional personnel to assist with the travel function.

It is our belief that with the implementation of a $5 deductible our administrative costs would be reduced by 82 FTEE. This would reduce the present administrative costs by $1,020,000.

Chairman SIMPSON. On the subject of third party reimbursement [and that plan is contained in 1058] you stated you would rather continue to allow OMB to set the relevant rate scale instead of, perhaps, placing that duty in the hands of the Administrator as set forth in the bill.

How is that recommendation affected by the provision in the bill that per diem rates shall be established through consultation with the applicable insurance carrier?

Mr. COY. There's probably not total consistency between the two provisions. The administration has constantly believed, and I think with some justification, that there should be some uniformity of rate setting and some overall balancing process which is provided by the President through OMB. That is why that position is taken.

I would imagine that the per diem rates which the Adminstrator would establish would have to take into consideration the other rates set by OMB, because right now there is some inconsistency.

Chairman SIMPSON. I see that, and that's why I asked the question. I wondered if there was an explanation for that. I guess the answer is, there is no explanation for that at the present time?

Mr. COY. There is not. That's true.

Chairman SIMPSON. I wanted the record to show that you nodded, but didn't show which direction.

You estimated that a cost savings for S. 1058 is between $124 and $270 million. But since Congress has already enacted legislation requiring VA health providers to look behind the oath, how much of those projected savings would actually be realized through S. 1058?

Would those savings not, in fact, be saved by a thorough implementation of this look-behind-the-oath requirement?

Mr. COY. We had anticipated that the provision of looking behind the oath would save somewhere in an area of $9 million. There was a lot of disagreement between the CBO estimates and our estimates. That is something that I can't expand on, only that we felt that the total avoidance would be somewhere in the area of $9 million.

We have tried to take that into consideration. As I indicated earlier, we will provide for the record a detailed analysis of the methods in which we have put together this cost estimate. I think there still needs to be some refinements.

It's our estimate that there will be significant savings, even taking into consideration, or off-setting the amount of savings that can be achieved by the cost avoidance factors of looking behind the oath.

Chairman SIMPSON. Again, we come to the classic difference in figures between the VA and CBO, which has always fascinated me in my brief tenure on the committee. And it's apparent here again.

[Subsequently, the Veterans' Administration submitted the following information:]

Office of General Counsel Washington, D.C. 20420

Veterans Administration

MAY 2 1 1981

CAMERA COPY—CRISP

Honorable Alan K. Simpson
Chairman, Committee on
Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

At the time of your Committee's May 6, 1981 hearing on S. 1058, we had not finalized our cost analysis of that measure. In response to a staff member's request following the hearing, we are now submitting our cost analysis of S. 1058.

Because of the difficulties in collecting monies due the agency which are reflected in the testimony presented by various witnesses from the insurance industry, we had to make several assumptions that are contained in the methodology which is enclosed. If one assumes a 50 percent recovery rate, the 5-year recovery figures would be:

FY	Net Financial Impact to VA
1982	-$ 17,503
1983	41,879
1984	60,993
1985	57,817
1986	57,729
Five-year Impact Total	$200,915

However, if one assumes a 75 percent recovery rate, then the figures would be:

FY	Net Financial Impact to VA
1982	-$ 9,847
1983	70,142
1984	99,862
1985	96,300
1986	97,544
Five-year Impact Total	$354,001

In Reply Refer To: 021:IS

2.

Honorable Alan K. Simpson

These latter figures are arrived at by adding 50 percent to the figures entitled "Reimbursement to VA" contained on page two of the enclosure.

We trust this material will be of assistance to you in considering this proposal.

Sincerely yours,

ROBERT E. COY
Acting General Counsel

Enclosure

Veterans Administration

Memorandum

Date MAY 19 1981

To:

Subj:

1. The draft legislation, S. 1058 of the 97th Congress, provides for recovery of certain reasonable costs of health care rendered for nonservice-connected conditions if the veteran has health insurance coverage or the costs were recoverable under Worker's Compensation, motor vehicle accident plans, or compensation due persons in crimes of personal violence. Two significant inclusions are:

a. Establishment of a VA Medical Care Recovery Fund to reimburse the VA for the cost of administering the program or for research and education programs; and,

b. Appropriations for necessary personnel and services to carry out the provisions of the Act.

Specifically, the bill would require billing nonservice-connected veterans under age 65 and service-connected veterans treated for nonservice-connected conditions for inpatient and outpatient care for which health insurance might provide coverage. Provisions of this bill do not apply to individuals in receipt of medicare or medicaid coverage.

2. In order to arrive at representative recovery figure, the following table gives the methodology used to arrive at both the costs to the VA and net amount recoverable under the legislative proposal.

Phase-in Billing ($ in 000's)

	1982	1983	1984	1985	1986
Estimated Potential Billings	105,609	104,269	103,034	102,207	110,142
Phase-in of Billings (based upon 90 day start up period for insurance companies and 1/12 of industry shifting each month)	32,739[1)]	78,202	77,276	76,655	82,606
		24,291	26,067	25,758	25,552
	32,739	102,493	103,343	102,413	108,158

1) Phase-in of billings is based upon the assumption that insurance will have 90 days to start converting to a new policy. It is further assumed that the insurance industry will phase-in policy conversion over a 12 month period.

VA FORM 2105
MAR 1980

2.

Legislative Affairs Staff (17D)

	1982	1983	1984	1985	1986
Phase-in of payments of billings based upon 90 day lag from date of billing	15,313[2)]	39,101 17,826 56,527	38,638 39,101 77,739	38,328 38,638 76,966	41,303 38,328 79,631

2) The VA will start requiring payments of billing 90 days after bill is sent to insurer.

Third Party Reimbursement
($ in 000's)

FY	Reimbursement to VA	Administrative Costs	FTEE	Net Financial Impact to VA
1982	$ 15,313	$ 32,816	772	-$ 17,503
1983	56,527	14,648	772	41,879
1984	77,739	16,746	772	60,993
1985	76,966	19,149	772	57,817
1986	79,631	21,902	772	57,729
Five-year impact totals	$306,176	$105,261	772	$200,915

These recovery factors are based on the assumption that VA is fully carrying out the provisions of section 401 of Pub. L. 96-330 which in effect requires the VA to determine which veterans (nonservice-connected) have private coverage and are referred to other community resources. We recognize that there are many veterans who have limited coverage and will eventually become a VA beneficiary. Because of this, it is necessary to make certain assumptions in order to calculate the dollar impact to the VA with this proposed legislation.

a. That 20 percent of those veterans admitted service-connected for nonservice-connected conditions and nonservice-connected patients have some form of insurance coverage who will not be excluded from VA care by Pub. L. 96-330, section 401. Pub. L. 96-330, section 401 will have referred those veternas whose insurance coverage would cover their hospitalization or outpatient treatment (maximum attainable) to the private sector.

b. Of the 20 percent with limited coverage, we estimate that the coverage provided by the third party will only cover 50 percent of the services rendered. Our assumption for this is predicated on the following:

1) The VA provides unique services which are not commonly covered as hospital services, i.e., Dental, Spinal Cord Injury, Rehabilitation Medicine, Audiology and Speech Pathology, etc.

3.

Legislative Affairs Staff (17D)

2) A number of admissions to the VA, such as Cardiology cases, will have already used up most of their coverage prior to being transferred to a VA facility.

3) Insurance companies provide only limited coverage for Outpatient treatment and Psychiatric care.

c. Of the 50 percent of services covered, the VA will recover 50 cents on each dollar billed. The 50 percent recovery is based on the following:

1) The VA average length of stay is 15 days. The PSRO standard, which is used by the insurance companies for inpatient billing is approximately 6 days. The recovery by the VA for any length of stay over 6 days will be around 40 to 50 percent depending on the services rendered.

2) Insurance companies will not receive an itemized billing from the VA and will exclude certain items from reimbursement, i.e., laboratory and radiology. This may be a clinical decision which would be covered in a particular veterans policy or only partially covered.

3) For humanitarian reasons, the VA will not discharge a patient always on the date the physician states that patient can be discharged. In these cases the VA will not receive the costs associated with care.

d. Per diem figures used in this estimate are current and approved by OMB. They are broken as follows:

Medicine and Surgery	$245 a day
Psychiatric	$154 a day
Outpatient	$ 54 a visit

e. Projected recovery for Nursing Home Care is not included in this estimate.

f. The administrative costs assumes implementation of an automated billing system.

3. In addition, the following data and methodology were used to arrive at the final net impact figure for the VA:

	Inpatient				
	1982	1983	1984	1985	1986
Medical Discharges	41,704	40,667	39,580	38,428	41,212
Surgical Discharges	33,063	32,163	31,630	30,739	32,966
Psychiatric Discharges	19,618	19,454	19,082	18,926	20,297

4.

Legislative Affairs Staff (17D)

Outpatient

	1982	1983	1984	1985	1986
Total Visits	1,895,200	1,935,000	1,969,000	2,017,400	2,242,200

These figures represent the 20 percent with some type of third party coverage.

Chairman SIMPSON. Well, one final question. In light of the provisions of Public Law 96-330, does S. 1058 have any effect then beyond S. 636, in your view?

Mr. COY. S. 636 covers cases in which the individuals many times would be admitted without knowing what type of coverage they had, whether its "no fault" coverage, whether "crime victims," or whether "workmen's compensation" provisions. So I think you would have to consider the two provisions different.

I think the issue with respect to looking behind the oath would not, in fact, affect S. 636.

Chairman SIMPSON. Well, I appreciate very much your appearance here and your testimony and that of your staff. There will be further questions presented by other members of the committee and we would appreciate your prompt response to those. Thank you. Thank you very much, all of you.

[The prepared statement of Robert E. Coy follows:]

PREPARED STATEMENT OF

ROBERT E. COY,

ACTING GENERAL COUNSEL,

VETERANS' ADMINISTRATION

BEFORE THE

SENATE VETERANS' AFFAIRS COMMITTEE

MAY 6, 1981

Mr. Chairman and members of the Committee:

I am pleased to be able to appear before you today in behalf of the Veterans Administration to discuss the legislative initiatives which we have submitted to the Congress this session, which would result in cost-savings to the Federal Government. We are appreciative, Mr. Chairman, that you have introduced these proposals in the Senate so they may now be considered and acted upon by the Committee. These items are now before you as S. 916, S. 919, and S. 920. If enacted, we estimate they would result in a savings during Fiscal Year 1982 of $92 million.

Mr. Chairman, before discussing each of these items separately, I would just like to state that we arrived at each of the proposals after an intensive and exhaustive examination of the entire VA budget. We are seriously concerned about the need of every agency to help reduce Federal spending. We are also committed to an obligation of prompt and proper delivery of the benefits and services now provided America's veterans and their dependents. We are aware that the two objectives, reduced spending and the continuation of our necessary services, require a balancing of alternatives which is not always easy, and which at times may cause reasonable minds to differ.

2.

The first proposal I would like to address is S. 916, which would eliminate the provision of outpatient dental treatment for service-connected noncompensable dental conditions that are unrelated to service trauma or prisoner-of-war status.

Under existing law, if timely application is made, the VA is authorized to furnish outpatient dental services and treatment, and related dental appliances to veterans for dental conditions which, though considered as if they were service-connected are noncompensable in degree. These dental conditions which are generally minor in nature, existed during the veteran's military service, and in ordinary course should have been treated during such service.

With overall curtailment of the Federal budget, it has been necessary for us to husband our resources and concentrate on areas of greatest need. This is necessarily a difficult balancing process. In the case of our dental program, it is our judgment that we cannot justify the assignment of a high priority to treatment of noncompensable routine dental conditions unrelated to actual trauma or POW status.

As indicated earlier, those now receiving such outpatient dental treatment are generally veterans whose dental conditions existed during their active military duty but who either did not seek treatment during service or who did not seek it in sufficient time to allow for it being completed during service.

3.

Accordingly, we are proposing the elimination of this authority, insofar as VA treatment is concerned. The President's Budget reflects cost avoidance of $8 million in Fiscal year 1981, $32 million for Fiscal Year 1982, and $143 million over the first five years, based on termination becoming effective July 1, 1981.

Our second proposal, S. 919, would establish a limitation on the funds available for special pay for physicians and dentists in the Department of Medicine and Surgery to 12 percent of the total annual appropriation for remuneration of all physicians and dentists in DM&S.

The current rates of special pay for physicians and dentists in DM&S were established by the Congress in Public Law 96-330, enacted in August 1980. This legislation, among other things, made permanent the special pay authority for eligible physicians and dentists employed in DM&S, and substantially increased the rates of special pay authorized under section 4118 of title 38 up to a maximum of $27,500.

As you are aware, Mr. Chairman, the special pay legislation in the last Congress was originally vetoed. A key concern underlying that veto was the view that the VA special pay increases would adversely affect the ability of the Department of Defense to recruit and retain physicians. Whether those concerns were valid when raised, and whether they are valid today, is an issue on which one may differ. There is no question, however, that the comparability concerns of DoD would be largely mooted by the present proposal.

4.

It must be acknowledged that any cut in pay, or any cap imposed on an individual's salary, in the face of continued escalation in the cost of living, such as members of Congress and Federal executives have experienced, has some impact on morale. Nevertheless, we recognize that all Americans must make some personal sacrifice for the benefit of the economic stability of the nation as a whole.

It is our view that DM&S's requirement for physicians can generally be met through a more flexible and targeted approach, at less cost to the taxpayer than was provided in Public Law 96-330. Under the approach taken in S. 919, the Administrator would have flexibility to use the full amount of special pay which is available where it is most needed--to attract and retain health-care professionals for service in certain locations and in medical and dental specialties in which extraordinary recruitment and retention difficulties have been experienced. The VA's special pay authority would remain permanent in nature and would continue to be a very useful tool for DM&S, but the mandatory nature of primary special pay would be eliminated. In other words, the full amount of primary pay ($7,000) could still be paid in areas of greatest need, and a lesser amount paid in other situations.

We estimate the additional annual cost of the increased special pay authority provided under Public Law 96-330 to be approximately $80 million. The proposal to cap special pay,

84-082 O—81——6

5.

if made effective on July 1, 1981, as proposed in S. 919, would also bring outlays to the level estimated by the Congressional Budget Office at the time Congress was considering passage of Public Law 96-330, with an estimated savings of some $40 million the first fiscal year. This change would reduce the total funds available for special pay from $135 million to $95 million.

S. 920 would result in a cost-savings by revising and clarifying eligibility requirements for reimbursing veterans for their travel expenses to VA facilities for health care.

Current law provides that reimbursement of travel expenses under section 111 of title 38, United States Code, is an integral part of hospital care and medical services to which veterans may be entitled. Veterans determined eligible for travel reimbursement on the basis of a declaration and certification of inability to pay such expenses, or on the basis of their receipt of benefits for or in connection with a service-connected disability, may be reimbursed on an actual expense method or by a mileage allowance. Veterans traveling by privately-owned vehicle may not be reimbursed in excess of the common carrier rate unless public transportation is not reasonably accessible or would be medically inadvisable.

The purpose of furnishing veterans reimbursement for the cost of travel to and from VA health care facilities is to assure that eligible beneficiaries will be able to avail themselves of needed care. With the exception of travel by special modes of transportation, such as ambulance service authorized for medical emergencies, a significant percentage of trips for which the VA provides veterans reimbursement especially in metropolitan area involves payments of only a few dollars. These trips most frequently represent travel by common carrier or relatively

6.

short car trips. However, multiplied by the many millions of patient visits being made annually to VA medical centers and clinics, these reimbursements are expected to account for a very significant part of a projected $85 million beneficiary travel expenditure for Fiscal Year 1981 and $93 to $94 million for Fiscal Year 1982.

In the first session of the 96th Congress, the VA initiated a proposal to eliminate nonservice-connected veterans' eligibility for reimbursement of travel except where special vehicular modes of transportation are required. In response, Congress in Public Law 96-151 ultimately endorsed the desirability of avoiding costs in this area by authorizing the Administrator to establish standards to determine the validity of claimed inability to pay travel costs. At the same time, veterans receiving benefits for or in connection with a service-connected disability are exempt under law from the required certification of inability to defray the expenses of travel. In view of the limitations in Public Law 96-151 on the Administrator's authority to contain expenditures in this area, however, the resultant cost avoidance has not been significant.

In essence, the Agency lacks sufficient authority to control the mounting costs associated with this reimbursement program. We propose, accordingly, a reexamination of the premises underlying payment in full of common carrier costs and private vehicle mileage expenses. We see little justification for continuing to devote multi-millions of dollars in payments annually for individual cases in which the costs are sufficiently small that the VA's failure to reimburse them would not deter a veteran from seeking needed health care.

7.

Therefore, we proposed S. 920, which would amend section 111 of title 38 to limit payment of travel to and from a VA facility for an episode of care for a nonservice-connected condition to sums in excess of five (5) dollars for the cost of that travel. For example, under the proposed deductible, a nonservice-connected veteran traveling by bus from an outlying area to a VA medical center would be reimbursed $23 of his round trip expenses of $28 for bus and intra-city transit costs. Also, a veteran within a metropolitan area would not be reimbursed for the $1.50 round trip public transit cost of travel between his home and the VA. However, no deductible would be imposed on a veteran traveling to and from a VA medical facility for care for a service-connected disability or on a veteran with a service-connected disability rated at 50 percent or more.

The bill would also provide the Administrator with authority to adjust the five (5) dollar deductible figure within the framework of his role under section 111(e) of title 38 of conducting periodic studies of the cost of travel and determining rates of allowances or reimbursement to be paid. This mechanism would permit the Agency to take inflation and other factors into account in administering a deductible provision. We believe beneficiary travel payments to be an area where substantial reductions can be achieved without compromising the purpose of that benefit--access to VA health care. Experience in the private sector would indicate that travel costs of the magnitude proposed--up to five (5) dollars per visit for an individual, while burdensome in some cases, are not so great as to deter one from seeking needed medical care. S. 920 strikes a reasonable balance between achieving needed efficiencies and preserving access to VA health care.

8.

This proposal assumes an effective date of July 1, 1981, which will result in some cost avoidance for Fiscal Year 1981. Cost avoidance for Fiscal Year 1982 is estimated at $20 million.

Mr. Chairman, there are also two provisions before the Committee which provide for the right of the United States to recover under designated circumstances the costs of hospital, nursing home, or outpatient medical care furnished by the Veterans' Administration to veterans for nonservice-connected disabilities.

The first provision is contained in section 2 of S. 636 which would provide for the right of the United States to recover the reasonable costs of care and services from the State (or a political subdivision thereof), employer, employer's insurance carrier, or automobile accident reparations insurance carrier, to the extent that such veteran, or the provider of care and services to the veteran, would be eligible to receive reimbursement for such care and services if they had not been furnished by the United States. Specifically, recovery would be allowed when the veteran's care for a nonservice-connected disability was incurred incident to:

1) The veteran's employment, and the disability is covered by a workers' compensation plan which provides for reimbursement, or

2) As the result of a motor vehicle accident covered under a State's "no fault" provisions, or

3) In situations arising under a State's "victims of crimes" provisions.

9.

The measure further provides that regulations prescribed by the Administrator for the determination of reasonable costs shall be prescribed only after notice and opportunity for public comment. The proposal also provides for both a right of subrogation and an independent cause of action.

In addition, the measure provides that no law of any State or subdivision shall prevent recovery by the United States. The measure also expressly provides that veterans eligible for VA health-care services under chapter 17 of title 38, United States Code, may not be denied VA medical care or services by reason of this provision.

VA has had for many years an active program in most States for recovering health-care costs for disabilities covered by workers' compensation, automobile no-fault accident insurance, or a State's crime-victims' compensation programs. Under the authority granted to the Veterans Administration pursuant to the provisions of the Federal Medical Care Recovery Act (FMCRA), which enables us to recover hospital costs from tortiously liable third parties, the VA, in FY 1980, collected $9,081,479. Of that total, approximately one-half was collected under the FMCRA. However, the VA does not have currently a specific statutory basis to pursue collections for injuries when no tort liability need be shown, such as, under workers' compensation, automobile no-fault accident insurance, or a State's crime-victims' compensation program. Rather, such collection efforts are pursued under various State laws. Regrettably, as a result of adverse court decisions and State statutes that are worded in such a fashion as to provide payment to private health care providers but exclude payment to Federal health care providers, we are experiencing difficulties in collecting in a few States.

10.

At present, the Office of Management and Budget under authority delegated by the President sets reasonable medical care recovery rates for Federal agencies. The rates are periodically published in the Federal Register. We are of the opinion that the present method of setting rates should continue. If the bill is to receive favorable consideration, we, therefore, favor a technical amendment to the measure which would delete the provision for rate setting by the Administrator, and in lieu thereof provide for rate setting by the President. In our opinion, such an amendment would obviate the need for a second notice prior to setting rates.

Inasmuch as the proposed measure would codify recovery activities which we already exercise, the measure would not have an impact in all states. While we have not been able to determine with any precision the projected cost savings of the measure, it has been informally estimated that potential recoveries would be $200,000 in the 1st year of full implementation rising to $2,300,000 in the 6th year.

While we believe uniformity of recovery procedures is desirable, and while VA has historically supported legislation of this nature, the new Administration has not yet taken a position on the question of whether this should be achieved by preempting State laws. We, therefore, recommend that the Committee defer action on this proposal until the new VA Administrator has had an opportunity to review this issue.

11.

Mr. Chairman, the second provision authorizing recovery of medical expenses is S. 1058. This measure is similar to the provisions in S. 636 with several exceptions.

First: S. 1058 would provide for the right of the United States, acting through the Veterans Administration, to recover the costs of hospital, nursing home, or outpatient medical care to veterans for nonservice-connected disabilities to the extent that they have private health insurance or similar contracts or rights with respect to such care. This bill would prospectively prevent third-party payors from utilizing exclusionary clauses in their contracts to deny the Veterans Administration reimbursement for costs incurred by veterans for treatment for non-service-connected injuries or disabilities, if such care is covered when furnished by private health care providers.

Second: S. 1058 would specifically preclude recoveries under Medicare and Medicaid programs.

Third: This measure provides that moneys collected would be deposited in a special fund at the Treasury known as the "Veterans Administration Medical Care Recovery Fund" which the Administrator could use to reimburse Veterans Administration medical care facilities for the cost of administering this provision, including the medical care and treatment furnished, or to provide such facilities with funds for the purpose of conducting research and education programs. These monies would be in addition to existing congressional appropriations for "Medical Care," "Medical and Prosthetic Research," and "Medical Administration and Miscellaneous Operating Expenses."

S. 1058 has a provision similar to that contained in S. 636 which allows the Administrator to establish the rates for the cost of medical treatment. In this connection, we refer to

12.

our statement on S. 636 wherein we noted that at present the Office of Management and Budget under authority delegated by the President sets reasonable medical care recovery rates for Federal agencies. The rates are periodically published in the Federal Register. We are of the opinion that the present method of setting rates should continue.

As to the provision excluding recovery from Medicare and Medicaid, we are of the opinion that this proposal is appropriate.

Section 2 of the bill would provide that any moneys collected be placed in a special fund which could be used to reimburse medical care facilities for the cost of administering this program and for purposes of conducting research and education programs. It is the position of the Administration that any moneys collected by VA should be deposited in the treasury as miscellaneous receipts. In the executive budget process such receipts are considered as proprietary since they arise from business type activities. Under long-standing policies these amounts would be offset against the totals of budget authority and outlays for VA and for the hospital and medical care accounts in the Executive Budget.

It is estimated that enactment of this proposal could result in recoveries in Fiscal Year 1982 ranging from $124 million to $270 million in Fiscal Year 1986.

Mr. Chairman, we would again reiterate the position we took on S. 636 and note that while we believe uniformity of recovery

13.

procedures is desirable, and while VA has historically supported legislation of this nature, the new Administration has not yet taken a position on the question of whether this should be achieved by preempting State laws, as would be the case for certain of the provisions of S. 636. We therefore recommend that the Committee defer action on those portions of the bill until the new VA Administrator has had an opportunity to review this issue. Assuming, however, that sufficient resources are provided to allow us to properly administer the program, and with the understanding that no outside entity would be allowed to preempt the Administrator's authority to determine quality of care issues, we would have no objection to the enactment of those portions of the bill which would authorize reimbursement from private medical insurance of the medical expenses of veteran patients except for certain exclusionary clauses now directed towards care furnished by Government providers.

Mr. Chairman, in closing, I would like to pledge our commitment to continuing to search for ways to cut spending at every level of our Agency. At the same time, we will remain vigilant in carefully scrutinizing each item under consideration for further cost-saving in order to guarantee that there be no slippage in the effective delivery to veterans of those services mandated by Congress.

Miss Starbuck will now comment on those measures affecting the Department of Veterans Benefits. Following her statement, those of us representing the VA would be pleased to respond to any questions from you or other members of the Committee.

Chairman SIMPSON. And now Dorothy Starbuck, and if you will introduce your staff personnel, please.

TESTIMONY OF DOROTHY L. STARBUCK, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION, ACCOMPANIED BY MS. JUNE SCHAEFFER OF THE EDUCATION SERVICE; HERB MARS OF THE COMPENSATION AND PENSION SERVICE; AND JOHN H. THOMPSON OF THE GENERAL COUNSEL'S OFFICE

Ms. STARBUCK. Thank you very much, Mr. Chairman.

On my left is Ms. June Schaeffer of our education service; on my right, Mr. Herb Mars of our compensation and pension service; and seated immediately next to me is Jack Thompson of the general counsel's office.

I'm very pleased to be able to discuss with you this morning the proposals advanced which have an effect on the Department of Veterans' Benefits programs. I would like to address first the three proposals concerning the education and training programs and then comment on the disability compensation and the burial benefits measures.

With respect to S. 1065, which you recently introduced, this bill would effect a termination of the education loan program which we administer. This program is one which has been in existence since 1975 and is now available to veterans training, not only under what is popularly known as the GI bill, but has been extended to those who participate in programs under the contributory education program, to eligible dependents who train and to veterans who will commence flight training or have commenced it after October 1, 1980.

Mr. Chairman, the education loan program is currently being reviewed as we move toward development of our fiscal year 1983 budget requirements, and we have not, as of today, established an administration position with respect to this program since it will be reviewed as a part of the review on what an all volunteer education program should be.

With respect to S. 1066, this would provide for termination of eligibility for GI education assistance after 5 years to any person who would be eligible, but whose adjusted gross income is $20,000 or more.

Under our current program, we pay a veteran on the basis of the rate at which he or she pursues his or her education and the number of dependents for whom the veteran is responsible. We believe that this practice should continue. We believe that any limitation on educational assistance based on income would have the effect of discriminating against an individual who might be at a given level of income, but who could, through educational pursuit, improve his or her personal lot.

In addition, we would encounter circumstances in which an individual earning a specified income could find himself or herself in a position where within a year he or she would have drastically reduced income and would be foreclosed from pursuing an education or training mode that would offer him or her an opportunity to enter employment in a different discipline.

We believe that the enactment of this provision could have the effect of penalizing those who have, in fact, made some progress

toward readjustment, but would then be a disincentive to any further betterment of the individual's lot.

Mr. Chairman, we are opposed to this proposal which would, in fact, tie educational assistance to an individual's wage earning capacity.

With respect to S. 918, which would terminate the authority to provide educational assistance for the pursuit of flight and correspondence training, we strongly urge the enactment of this legislation. We believe these two programs have not met the objective of providing substantial employment for those who have trained, and that many persons have used one or both of them for recreational or avocational purposes.

This position has been supported by at least three reports that have been made in recent years. I would cite the Comptroller General's report of August 1979, which showed that only about 16 percent of those who had taken flight training had full-time jobs directly related to the training they had taken.

Further, it showed that only about 34 percent of those persons who had completed correspondence training had full-time jobs that related to the training taken; and that the overall completion rate for correspondence training was less than 50 percent.

Because these two programs have not provided substantial employment for those trained, the Veterans' Administration does strongly support their termination. Termination of these two programs would result in fiscal year 1982 savings of some $32.2 million.

Turning now to those proposals affecting the disability compensation program. We recognize that the basic purpose of the compensation program is to provide relief from the impaired earning capacity of veterans who are disabled as a result of military service.

Speaking initially to S. 1059, we have in the agency adopted a schedule of rating disabilities and concurrent regulations which take into consideration the impact of a severe service connected disability or disabilities on a veteran's ability to follow employment.

A veteran whose schedular rating for a single disability is not less than 60 percent, or 70 percent for a combination of disabilities, may be awarded compensation at the totally disabled rate if, as a result of his or her disability, he or she becomes unemployable.

The determinations in these cases are made on each individual case as it is presented, and these cases are commonly known in the trade as "code 18" cases.

As of April 1981, we had 112,728 veterans receiving compensation at the 100-percent rate on the basis of having been granted code 18 unemployability. This compares with 130,590 veterans who are schedularly rated at 100 percent.

S. 1059, which you introduced, Mr. Chairman, is intended to reduce the payment of compensation benefits to these veterans receiving unemployability who are also eligible for social security benefits either by reason of age or disability.

Under this measure the amount of compensation would be limited to the greater of the code 18 rate reduced by the value of the

social security benefit payable, or the compensation benefit payable by virtue of a schedular rating.

We have not been able to ascertain, in the time available to us, how many of these code 18 veterans would be affected. It is highly probable, however, that a significant number of them currently receiving unemployability benefits are on the social security rolls by reason of age or disability.

We have recently conducted a match against social security records and we'll be happy to provide the results of that to you for the record.

Chairman SIMPSON. We would very much appreciate that.

[Subsequently, the Veterans' Administration submitted the following information:]

As of April 1981

Code 18's in survey	97,652
Code 18's with no social security number	−10,807
Code 18's with verified social security number	86,845
Code 18's with no social security payment	33,345
Code 18's with social security based on age	25,306
Code 18's with social security based on disability	28,194

Ms. STARBUCK. There would be substantial cost savings to the VA if this legislation is enacted. If one were to assume an effective date of October 1981, and a retroactive application of the provisions, an average reduction in compensation payments of $500 would be made affecting about one-fourth, just on an estimate, of those receiving code 18 benefits.

This would reduce then the fiscal year 1982 compensation outlays for the Veterans' Administration by approximately $154 million. If the provisions were to apply prospectively, however, the fiscal year 1982 savings would be substantially less.

Mr. Chairman, this is a far-reaching recommendation. We have not, we feel, been able to give it adequate attention, and consequently we have not formulated an agency position. We will be happy to, as we proceed through this, keep you informed of our deliberations.

With respect to S. 1060 and S. 1064, these both would amend the method by which payments to veterans in receipt of 10- or 20-percent disability compensation would be made. S. 1060 would give the Administrator discretionary authority to offer a veteran a one-time lump-sum payment in lieu of receiving future monthly payments that he or she would otherwise be entitled to receive.

This proposal gives us some cause for thought, since our current disability compensation program is designed to permit appropriate response to changes, both upward and downward in the severity of a veteran's service-connected disability. There are a number of reasons, which I will cover as briefly as possible, why we would, in the Veterans' Administration, oppose enactment of both these proposed legislative acts.

It has been our historical experience that many disabilities typically follow a course of increasing severity. And by the same token, other disabilities decrease in severity and are then subject to decreased evaluations and payments. Were we to offer an individual a one-time lump-sum payment, then it would be difficult to offer an

individual, or to even permit us to make award adjustments, either upward or downward with respect to his or her disability.

This would foreclose other adjustments which we make now with respect to the hospitalization of a veteran for a service-connected disability. It poses some problems with respect to veterans who have multiple disabilities, some of which would be rated at 10 percent or 20 percent, others at zero percent, when, if fact, the zero-percent disability could increase over the years in severity and cause the individual to become eligible for payment.

We have some questions concerning the application of this particular proposal with respect to the requirement that military pay be waived in order for an individual to receive disability compensation payments.

We have provisions for a stoppage of payment to incompetent single veterans who are hospitalized, whose estate may not not now exceed $1,500. We have provisions with respect to payment o benefits to certain incarcerated veterans. And the many questi..s that come up with respect to these variables make us question ..ry seriously the advisability of this legislation.

While time limitations have not permitted us to formally cost the proposal, we have estimated that should this one-time offer be made, even to those who are rated 10 percent, the first-year cost would be in excess of $4 billion and costs after that time, of course, would decrease.

We computed this figure assuming one-half of those who are evaluated at 10 percent would accept such an offer from the administration. And assuming a life expectancy of that individual for 20 years, an average payment to him would be approximately $10,000. We have not taken into consideration the discounting in this estimate. So the savings would not accrue then until after enactment—the second fiscal year after enactment.

The companion piece of legislation would provide for yearly payment of a benefit to individuals drawing 10 and 20 percent. Payments would be made at the end of the year in which the payment was earned. Such a proposal would provide a rather difficult task for us in implementation.

And this would surface generally around a more complex data processing program which would have to be developed. We do not believe that this proposal would result in any cost savings either to the Veterans' Administration or do we believe that any significant savings to the Treasury Department would result by the issuance of 1 check per year rather than 12.

While we must conclude that S. 1064 misses the mark as a cost-savings measure, we do believe that in the compensation program there are areas in which cost savings can be realized. And I would cite specifically the provision now that a veteran hospitalized for a service-connected disability who might be—disability might be—rated 10 percent, during a period of hospitalization is paid 100 percent.

I think that we can look at this and certainly we would be most happy to work with the committee and with your staff members in identifying and developing cost-savings measures which would be acceptable.

Chairman SIMPSON. We will be looking forward to that opportunity with new personnel.

Ms. STARBUCK. Thank you.

The last bill that would affect the compensation program is S. 1061, which you also introduced, Mr. Chairman. And this would authorize us to enter into agreements with various military departments to provide veterans who are receiving both military retired pay and either compensation or pension a single check with the individual benefits identified to the recipient.

We have currently on our rolls more than 330,000 service-connected veterans who are military retirees. We do not have at this time any current information on the total amount of compensation or pension payable to these individuals, but if you wish we will supply that for the record.

Chairman SIMPSON. If you would, please.

[Subsequently, the Veterans' Administration submitted the following information:]

AS OF DECEMBER 1980

[Dollar amounts in millions]

	Cases	Annual value
Military retirees receiving compensation	336,604	$1,627.1
Military retirees receiving pension	675	2.2
Total	337,279	1,629.3

Ms. STARBUCK. This proposed legislation would realize no reduction in VA outlays or budget authority. It would require that there be a drastic modification in both our computer systems and those of the Department of Defense. This concept of merging payments made by the military and the Veterans' Administration has been considered for a number of years.

The idea has been studied extensively. And following each study there has been a rejection of this on the basis that combining benefits payable by two separate agencies, using different criteria is an administrative task that is, while not insurmountable, very difficult for both to administer.

The problem relates basically to the fact that benefits are not static and the amounts in individual cases may vary for various reasons and change continually. One of the main concerns I think that have been addressed in this is the fact that there existed the possibility of overpayments within the two programs administered by VA and the Department of Defense.

A task force was established to determine the most effective way to reconcile these differences, and in April of 1978, the VA did furnish to the military a master file which DOD used to run against their retirement records. A reconciliation of all accounts was accomplished in the summer of 1978 and this proved successful enough and beneficial to the military, that this is now done on an annual basis.

Additionally, at such time as compensation rates are increased, we again provide the Department of Defense with a tape which they use in matching against their records to assure that proper adjustments are made. And so we have, in effect, really licked the

overpayment problem between payments made to retirees by both the military and the VA.

Since the program is pretty well under control, and for the reasons mentioned with respect to implementation, we do oppose the enactment of this legislation.

Turning now to S. 1062, this would deny VA non-service-connected burial benefits where the deceased veteran did not have a service-connected disability, and his or her adjusted gross income during the year preceding the year of death was greater than $20,000 or net worth at the time of death exceeded $200,000.

This would apply both to the payment of burial allowance and the plot allowance. The historical purpose of the burial allowance originated to avoid a veteran's being buried in what is known, and I guess that perhaps some of the younger people would not recognize, a "potter's field."

However, there have been so many Federal assistance programs developed and implemented, that the need for a special burial allowance for veterans has, in fact, decreased. We would not oppose enactment of legislation limiting the payment of burial benefits.

However, we would like to offer, as an alternative, consideration of the enactment of legislation which would limit the payment of burial allowance for veterans to those who are on either the compensation or pension rolls, or who except for the receipt of military retirement, would be eligible to receive compensation or pension.

During fiscal 1980 we spent approximately $145 million in non-service-connected burial benefits. Unless there is some controlling legislation passed, that figure will continue to increase as the rate of veteran deaths increases.

We believe that the administrative problems that would surround implementation of this legislation would be not only cumbersome for us, but would be cumbersome for individuals who are in the funeral director business. Traditionally, we have encouraged funeral directors to apply for the burial allowance, and it is their normal practice to deduct that payment from the bill which is presented to the survivors of the deceased.

We do not believe it would be appropriate for us to put a funeral director in the position of inquiring of the survivors regarding the income of a deceased veteran. The concept of income creates some difficulties. And while these are not insurmountable, they are considerable. And if the committee would accept as an alternative, our proposal to limit non-service-connected burial benefits to cases in which the veteran was at the time of death or would have been entitled to compensation or pension, we believe that this would be much easier to administer, it would be more acceptable and in line with the cost savings that are attempted here to be realized.

We estimate that adoption of this proposal would realize in 1982 a total savings of $106 million.

Finally, Mr. Chairman, I would like to discuss S. 1063, which would repeal the Administrator's authority to provide a cash allowance in lieu of a Government-furnished headstone or marker. The amount of the allowance which we pay for a headstone or marker is the average actual cost to the Government furnishing to the deceased's family a Government-furnished headstone or marker.

This is currently only $59, a one shot payment. During fiscal year 1980 we made 35,400 such payments, and these are increasing each year. We have reason to believe that those recipients, in the absence of a cash allowance, would, in fact, request Government-furnished headstones. Consequently no savings to the Government would accrue.

This would not be an effective cost-savings measure and we accordingly do not favor its enactment.

Mr. Chairman, that concludes my statement with respect to these proposals. I would be very happy to answer your questions.

Chairman SIMPSON. Thank you very much for your statement, it's a very thorough one.

[The prepared statement of Ms. Dorothy L. Starbuck and the Veterans' Administration response to written questions submitted by Hon. Alan Cranston, ranking minority member of the Committee on Veterans' Affairs follow:]

PREPARED

STATEMENT OF

DOROTHY L. STARBUCK

CHIEF BENEFITS DIRECTOR

VETERANS' ADMINISTRATION

BEFORE THE

SENATE COMMITTEE ON VETERANS' AFFAIRS

MAY 6, 1981

Mr. Chairman and members of the Committee:

I am pleased to be here to discuss those proposals under consideration this morning which would affect programs administered by the Department of Veterans' Benefits. I will address first the 3 bills concerning our education and training programs, and then comment on the various disability compensation and burial benefits measures.

I. Education and Training Proposals

S. 1065

Mr. Chairman, S. 1065, which you recently introduced, would terminate the education loan program administered by this agency.

This program, which was enacted in Pub. L. No. 93-508, effective January 1, 1975, grew out of Congressional concern that veterans residing in certain States where education was not heavily subsidized, or who chose to attend a private institution, were, in effect, unable to do so even with Veterans Administration assistance because the tuition cost exceeded the veterans' resources. The program was designed as a supplemental program to fill the gap between the veterans' available income and the cost of an education. Eligibility for these loans has been extended to those individuals participating in the contributory education program, to eligible dependents training under the Survivors'

and Dependents' Education Assistance Act, and to veterans commencing flight training after October 1, 1980.

Mr. Chairman, we are currently reviewing the education loan program in the context of developing our fiscal year 1983 budget requirements, and therefore do not have an Administration position on S. 1065 at this time.

S. 1066

S. 1066 would terminate eligibility for GI Bill educational assistance benefits after five years with respect to any otherwise eligible veteran whose adjusted gross income is $20,000 or more.

Under the current GI Bill program, we pay a veteran a stated monthly payment which is based upon the rate of educational pursuit and the number of dependents the veteran has. The present law does not provide for any reduction in the amount of educational assistance an individual may receive based on the individual's income from employment or other sources.

We believe this practice should continue. To limit the educational assistance benefit based on income could discriminate against an individual who might be at a specific income level but who could, through educational advancement, improve his or her personal lot. In addition, we can foresee that some income earners receiving a specified income in one year, with no income or greatly reduced income in the following year, being foreclosed from educational pursuits for purposes of training in a different discipline.

We believe that enactment of a provision such as is proposed in S. 1066, whereby an individual is not entitled to any educational assistance if, after having been out of

$20,000 or more in any subsequent year, would penalize those who have made some progress toward readjustment and prove to be a disincentive to their further betterment.

Thus, we are opposed to the proposal contained in S. 1066 which would associate educational assistance benefits with an individual's wage.

S. 918

The Veterans Administration strongly urges the enactment of S. 918, which proposes to terminate our authority to provide educational assistance for the pursuit of flight training by veterans and pursuit of correspondence training by veterans and other eligible persons.

We believe the flight and correspondence training programs have not met the objective of providing substantial employment for those trained, and that many have used these programs primarily for recreational or avocational purposes. This position is bolstered by three reports made in recent years concerning these programs--by the VA in July 1978, by the General Accounting Office in August 1979, and by our Inspector General in September 1979. To highlight just one study, the Comptroller General's report of August 1979 revealed that, in a random sample of recent flight trainees, only about 16 percent had full-time jobs directly related to such training. Moreover, only about 34 percent of those who completed correspondence training had full-time jobs directly related to their training, and the overall course completion rate for correspondence training was less than 50 percent.

In enacting all three of the GI Bill programs, beginning in 1944, Congress intended that the educational assistance provided by the VA would be a readjustment benefit, to

restore lost educational opportunities and to assist the individual in attaining an educational or vocational status which, but for his or her service, would have been reached. Because the flight and correspondence training programs have not provided substantial employment for those trained, and the potential for continued abuse remains, the Veterans Administration strongly supports their termination. This would result in fiscal year 1982 savings of $32.2 million.

II. Disability Compensation Proposals

I would like to turn now to S. 1059, S. 1060, S. 1064, and S. 1061, each of which would affect the service-connected disability compensation program. The basic purpose of the compensation program is to provide relief from the impaired earning capacity of veterans who are disabled as a result of military service. Mr. Chairman, there are currently more than 2.3 million veterans who, as a result of a service-incurred or service-aggravated disability, are entitled to receive compensation benefits under chapter 11 of title 38, United States Code. Almost 1.2 million of those veterans served during World War II; approximately 235,000 served during the Korean conflict; and 556,000 served during the Vietnam era.

S. 1059

The Veterans' Administration has, pursuant to section 355 of title 38, United States Code, adopted a Schedule of Rating Disabilities, found in Part 4 of title 38 of the Code of Federal Regulations. In addition, we have adopted regulations to take into consideration the impact of a severe service-connected disability or disabilities on a veteran's employability. Under 38 C.F.R. § 4.16, a veteran whose schedular rating for a single disability is not less

than 60 percent (or 70 percent for a combination of disabilities) may be awarded compensation at the totally disabled rate if, as a result of disability, the veteran is unemployable. These determinations are made on a case-by-case basis and are informally known as "individual unemployability" or "Code 18" cases.

As of April 1981, 112,128 veterans were receiving compensation at the 100-percent rate on the basis of individual unemployability, as compared to 130,590 veterans with 100 percent schedular ratings. Mr. Chairman, S. 1059, which you introduced on April 30, 1981, is intended to reduce the payment of compensation benefits to Code 18 veterans who are eligible for Social Security benefits by reason of disability or having reached age 65. Under this measure, the amount of compensation would be limited to the greater of tne Code 18 rate reduced by the value of the Social Security benefits payable, or the compensation benefit payable by virtue of the veteran's schedular rating. Mr. Chairman, we cannot be certain at this point as to how many Code 18 veterans would be affected by this provision. However, it seems probable that a significant portion of those veterans currently receiving Code 18 benefits are, by reason of age or disability, also eligible to receive Social Security benefits.

Substantial cost savings to the VA would arise if S. 1059 is enacted. If one assumes an effective date of October 1, 1981, and an average reduction in monthly compensation payments of $500, affecting one-quarter of the 112,000 Code 18 veterans, fiscal year 1982 compensation outlays would be reduced approximately $154 million, and budget authority costs by $168 million. However, if the provision were revised to apply only prospectively, the reduction in

fiscal year 1982 compensation costs would be, of course, substantially less.

Mr. Chairman, we are currently reviewing this proposal but have not yet formulated an agency position.

S. 1060

We would next like to discuss S. 1060 and S. 1064, since both would amend methods of payment to veterans in receipt of disability compensation based on 10-percent or 20-percent evaluations. S. 1060 would grant discretionary authority to the Administrator to offer such veterans a one-time, lump-sum payment in lieu of the future monthly payments each would otherwise potentially be entitled to receive. The lump sum would be computed using a present value formula set out in the bill. Once the offer is made, the veteran would have 60 days to accept it.

The current disability compensation program is conceptually designed to permit appropriate response by the Veterans Administration to changes in the severity of a veteran's service-conneted disability. The percentage evaluation assigned for a particular disability is governed by application of the criteria contained in the Schedule for Rating Disabilities to current medical findings. For the reasons discussed below, VA opposes enactment of both S. 1060 and S. 1064.

We foresee a number of problems resulting if S. 1060 is enacted. It has been our experience that many disease-based disabilities (such as hypertension and diabetes) typically follow a course of increasing severity.

S. 1060 would not permit award adjustments for a veteran becoming entitled to the assignment of a higher disability evaluation subsequent to a lump-sum payment being made.

Conversely, certain disabling conditions such as fractures or hemorrhoids, which initially warrant the assignment of a 10-percent or 20-percent evaluation, may improve so as to warrant no more than a 0-percent evaluation subsequent to the payment of a lump-sum amount.

Other adjustments would also be foreclosed. For example, currently, under certain conditions involving hospitalization or surgery for a service-connected disability, a veteran is entitled to the temporary assignment of a 100-percent evaluation in place of the evaluation otherwise assigned. Again, we foresee a problem where the veteran has already received a lump-sum payment.

Another problem area concerns a veteran who, for example, initially had two service-connected disabilities, one evaluated at 10 percent and the other at 0 percent. Assume that subsequent to a lump-sum payment for the 10-percent disability, the severity of the 0-percent disability increases to a level warranting the assignment of a 20-percent evaluation. Under current authority, the 10-percent and 20-percent evaluations would be combined to a 30-percent evaluation. The language of S. 1060 is not instructive as to how such a situation should be handled.

Other program problems of concern are the effect of such lump-sum payments on the current requirements that military retired pay be waived in order to receive disability compensation payments; that an incompetent, single, hospitalized veteran whose estate is in excess of $1,500 is not entitled to payments; and that certain incarcerated veterans' compensation payments are subject to reduction during their incarceration.

S. 1060, if enacted, would provide the option for a lump-sum payment to certain categories of veterans and not to others. We are unaware of sound reasons for extending this opportunity only to those veterans with 10-percent or 20-percent evaluations and not to all veterans. It is unclear from the bill, as drafted, whether such offers must be made in all cases in which 10- or 20-percent ratings are assigned, or whether some discretion would be permitted for cases in which future adjustments are more likely. If discretion were permitted, based upon regulations yet to be conceived, to what extent would such issues burden the claims adjudication process? How accurate would predictions of "stability" of disabilities be, since all would necessarily be grounded in the current state of medical knowledge?

It is also unclear whether the VA could make the offer of a lump-sum payment to each covered veteran only once or at regular intervals.

Time limitations have not permitted formal costing of this proposal. We have, however, roughly estimated that the costs for the first fiscal year following enactment would be in excess of $4 billion dollars to make a lump-sum payment to veterans with 10-percent evaluations. This figure was computed assuming that one-half of those evaluated at 10 percent (446,814) would accept the offer; that the average life expectancy was 20 years; and that the average payment to each would be $10,000. (Discounting was not taken into consideration in this preliminary estimate.) Savings would not accrue until the second fiscal year after enactment.

S. 1064

S. 1064 would also affect those veterans whose disabilities are assigned 10-percent or 20-percent evaluations by providing that each would receive one payment yearly representing

the total of the monthly payments due them for the preceding year. Administratively, this proposal would impose a greater implementation burden than that incurred in implementing the annual payments authorized for the nonservice-connected pension program. The pension program annual payment system is fully automated. Each affected account is reviewed each month and the payment due is automatically accrued. In order to accommodate the program concerns, a more complex data processing program would have to be developed should S. 1064 be enacted. The necessity for such a program would place additional strains on our limited programming staff.

We do not believe this proposal would result in any cost savings to the Veterans Administration. S. 1064 would not affect adjudication-related costs, nor would the costs related to computer processing be reduced since each case would be reviewed monthly to determine the accrual of the amounts due. We do not believe that the cost savings to the Department of the Treasury by virtue of issuing one check instead of twelve would be significant. While we conclude that S. 1064 misses the mark as a cost-savings measure, we believe that cost savings can be obtained in other areas. For example, area worthy of consideration is the current provision whereby a veteran becomes entitled to a temporary 100-percent evaluation due to hospitalization or surgery for a service-connected disability in place of the evaluation otherwise assigned. We question whether this temporary 100-percent evaluation assignment is warranted where the veteran's outside financial resources continue uninterrupted during the veteran's hospitalization. We would be happy to work with the Committee in developing these and other cost-savings measures.

S. 1061

The last bill under consideration today that would affect the compensation program is S. 1061, also introduced by the Chairman on April 30, 1981. This bill would authorize the VA to enter into agreements with the various military departments to provide that those veterans who are receiving both military retired pay and either VA compensation or pension would be paid both benefits in a single check. This "joint payment," to be issued by the military department, would be accompanied by a statement identifying the component parts of the payment. Under any such agreement, the VA would be required to reimburse the military department for the amount of compensation or pension so paid and notify the department of any change in the payee's eligibility for compensation or pension.

There are, currently, approximately 300,000 service-connected disabled veterans who are military retirees, according to information compiled during 1980 by the Department of Veterans Benefits. We do not have any current information on the total amount of compensation or pension payable to military retirees who have filed waivers of retired pay. However, we have reason to believe that it is a substantial amount, probably several hundreds of millions of dollars.

If S. 1061 is enacted and VA enters into agreements with each of the military departments, no reduction in VA outlays or budget authority would result. This is an important point if the purpose of S. 1061 is to reduce VA outlays during fiscal year 1982 and future fiscal years.

It should be noted that this proposal would require the modification of existing systems at DoD to assure proper inclusion of the veteran's compensation or pension payments

in his or her monthly retired-pay check. VA would have to devise a method of systematically providing notice to DoD in individual cases regarding changes in eligibility status.

In view of this, Mr. Chairman, the extent to which any benefit would be derived either by VA or the military departments from the enactment of S. 1061 would be dependent upon the development, following close coordination between each of the military departments and VA, of a comprehensive interdepartmental plan. This could result in the reduction of payment errors, including overpayments, but would, necessarily, require provisions to protect VA against incorrect reimbursement figures advanced by DoD. We suggest that the institution of these procedures would tend to increase administrative costs both for DoD and the VA.

The concept of payment of VA compensation by the military and vice versa has been considered several times before. In 1961 a similar idea was presented to Congress by GAO but legislation was never enacted. The idea was studied extensively at that time and again in 1965 and 1967. At that time, the VA did not respond favorably; combining benefits payable to two separate agencies under differing criteria was believed to be an immense administrative task, particularly since the benefits are not static and the amounts in individual cases may for various reasons change continually.

Payment of VA compensation by the military would require a vast amount of computer programming in order for the VA to maintain proper control over cases in a running award status and yet not make payment. Even if payment were not made by the VA, it would be necessary to continue to conduct examinations, furnish letters to inform the veteran of the level of disability, and maintain the veteran's current

address in VA records. Additionally, the VA would continue to be responsible for the adjudication and payment of auxiliary VA benefits.

One of the main concerns of the VA and the DoD in these cases has been the matter of overpayments. A VA/DoD/DoT Task Force wa established to determine the most effective remedy. In April 1978, the VA furnished an extract of the VA master file to the DoD. A reconciliation of accounts was accomplished during the summer of 1978. Because of the success of this effort, the reconciliation is now accomplished on an annual basis during March of each year. A tape exchange also takes place upon passage of legislation increasing compensation rates (usually during October of each year) which essentially represents a second reconciliation and additional opportunity to correct erroneous payments. This procedure has significantly reduced the overpayment problem. Ongoing refinements and related projects will further improve this data exchange. For the foregoing reasons, VA opposes enactment of S. 1061.

III. Burial Benefits Proposals

S. 1062

We turn now to S. 1062, introduced on April 30, 1981, which would deny VA non-service-connected burial benefits where the deceased veteran did not have a service-connected disability and his or her adjusted gross income during the year preceding the year of death was greater than $20,000, or where the veteran's net estate at the time of death exceeded $200,000. The denial would extend both to the $300 statutory burial allowance under section 902(a) of title 38 and to the $150 plot allowance under section 903(b)(2), where applicable.

INTENTIONAL BLANK

Mr. Chairman, a similar cost-savings provision, limited to deaths occurring in fiscal year 1981, was passed twice by the House during the 96th Congress, in H.R. 7511, the compensation cost-of-living increase bill, and in H.R. 7765, the Omnibus Reconciliation Act of 1980. However, the Senate did not concur, and the provision was dropped both in H.R. 7511 and the conference report on H.R. 7765.

The statutory burial provision dates back to the War Risk Insurance Act of 1917 (40 Stat. 45) which provided for the payment of burial expenses, not to exceed $100, for certain individuals whose deaths occurred before discharge or resignation from service. This provision was amended in 1923 (42 Stat. 1523) to extend the payment of the $100 allowance in the cases of veterans who died without sufficient assets to meet the expenses of their burial or where such expenses were not otherwise provided for. In 1936, the assets limitation previously contained in the law was removed. In 1946, the allowance was increased from a maximum of $100 to $150 (Pub. L. No. 79-529), in 1958, it was increased to a maximum of $250 (Pub. L. No. 85-674), and in 1978 it was again increased to a maximum of $300 (Pub. L. No. 95-476).

The historical purpose of the burial allowance provision was to avoid the burial of war veterans in "potter's field." However, as other Federal benefit assistance programs have been adopted or broadened, the need for a special burial allowance for veterans has decreased. Burial and funeral allowances, or lump-sum death payments, are now paid under many different provisions of law. For example, the Federal Employees' Compensation Act authorizes an $800 payment, under certain circumstances, for the funeral and burial expenses of Federal employees (5 U.S.C. § 8134(a)). The

Social Security Act authorizes the payment of a lump-sum death payment (42 U.S.C. § 402(i)) as does the Railroad Retirement Act (45 U.S.C. § 228e(f)). In addition, other Federal programs or laws authorize funeral and burial expense payment to employees of the House of Representatives (2 U.S.C. § 124), Public Health Service personnel (42 U.S.C. § 224), patients in Public Health Service hospitals (42 U.S.C. § 248(e)), Customs officers and employees (19 U.S.C. § 1645), and Peace Corps volunteers (22 U.S.C. § 2541(c)(10)).

Over the years, the aforementioned Federal burial benefits have been established to defray, in part, the actual cost of burial. In view of the multiplicity of such Federal burial payments, in recognition that the burial allowance is historically for the purpose of avoiding burial of a wartime veteran in a "potter's field," in recognition of the need to allocate the limited funds available to the most needy and to assist in achieving fiscal responsibility in the national interest, the Veterans Administration does not oppose enactment of legislation limiting the payment of VA burial benefits.

We favor the enactment of legislation to limit such payments to situations where the veteran was, or would have been, entitled to compensation or pension benefits, based on the evidence of record at the time of the veteran's death.

During fiscal year 1979, the last full calendar year for which complete information is available, the VA expended approximately $145 million in non-service-connected burial benefits, including burial and plot allowances. Unless legislation limiting the payment of such benefits is enacted, total expenditures will tend to increase as veterans grow older and death rates increase. Thus, we would anticipate

that the number of deceased veterans whose burial costs would otherwise be borne in part by the VA would , in each of the fiscal years following the enactment of the limitation we propose, tend to increase, such that VA burial benefits expenditures over future fiscal years would decline substantially both in comparison with current costs and future projections.

The estimated cost savings that would accrue during fiscal year 1982 from the enactment of S. 1062, however, is dependent upon information concerning the incomes and net worths of veterans who can be expected to die in that year. We note that, in the 96th Congress, the House Veterans' Affairs Commitee, relying on a Congressional Budget Office estimate, assumed cost savings from its proposal of $83.5 million in fiscal year 1981. We are in the process of reviewing that estimate and developing the necessary information for an updated long-range estimate. As an aside, Mr. Chairman, we do not believe that the net-worth limitation would have a significant impact in terms of reducing costs.

We would like to call your attention to certain administrative problems that would result from the enactment of S. 1062. Generally, VA burial benefits are payable directly to the funeral director (or funeral association) who lists this amount as an offsetting item in the list of funeral charges presented to the veteran's responsible family member. This administrative mechanism was adopted to facilitate payment of funeral bills and to obviate the need for a family member to file a separate VA claim. This administrative practice would require review and modification in order to make certain that funeral directors are not put in the position of adjudicating claims or making inappropriate inquiries regarding the deceased's income or net worth.

Another issue that would arise in the administration of this provision is the concept of income. The term used in S. 1062, "adjusted gross income during the year preceding the year" of the veteran's death, leaves room for a variety of interpretations and creates some difficulties. "Adjusted gross income" is not a defined term for VA purposes; if it is intended to refer to the amount listed as adjusted gross income in the veteran's previous-year income tax return, questions arise as to whether the veteran's spouse's income, in the case of a joint return, should be included; the treatment of income where the veteran was "head of a household;" the extent to which unduly large family health-care or other family expenses have had an impact on disposable income and should be considered; and, in the event death occurs prior to April 15, whether the income of the previous taxable year or the taxable year immediately preceding that year should be examined. The question regarding whether, by virtue of this phrase, a family would be required to authorize disclosure of the veteran's prior-year income tax return would inevitably arise. With regard to the phrase "net estate," we suggest that, where the estate is comprised solely of a farm or residence, a question arises as to whether the assets to be considered should be limited to cash or property that is readily convertible into cash. These not inconsiderable difficulties, and the administrative burden that the enactment of S. 1062 would entail would be avoided under our proposal to limit non-service-connected burial benefits to cases in which the veteran was or would have been, at the time of death, entitled to compensation or pension.

S. 1063

Finally, Mr. Chairman, I would like to discuss S. 1063, which would repeal the Administrator's authority to provide a cash allowance in lieu of a Government-furnished headstone or marker. As currently authorized, an eligible recipient may receive either the cash allowance or a Government headstone or marker but not both. The amount of the allowance is based on the average actual cost of the Government-furnished headstone and markers, which currently is $59. During fiscal year 1980, 35,412 payments were made and 21,352 payments have been made to the end of March in the current fiscal year. We reasonably believe that a majority of eligible recipients would, in the absence of the cash allowance, request Government-furnished headstones or markers at an identical cost. Therefore, elimination of this allowance may not be an effective cost-savings measure, and accordingly we do not favor its enactment.

Mr. Chairman, that concludes my testimony. I would be pleased to respond to any questions.

RESPONSE OF THE VETERANS' ADMINISTRATION TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN CRANSTON, RANKING MINORITY MEMBER OF THE COMMITTEE ON VETERANS' AFFAIRS

Question No. 1:

The Reagan Administration's economic recovery program involves many proposals which would, if implemented, severely curtail the assistance available to many individuals--particularly those in middle-income categories--for higher education. What impact would these proposals have on the availability of other forms of assistance to veterans training under the GI Bill?

Answer No. 1:

Eligible veterans seeking additional financial assistance could apply for a Veterans Administration education loan and/or participate in the Veterans Administration work-study program.

Question No. 2:

The provision of loan availability to individuals enrolled in programs of flight training was a key element in the House-Senate compromise reached last year in Public Law 96-466, the Veterans' Rehabilitation and Education Amendments of 1980, with respect to flight training. How many loans have been approved by the VA under this authority since its enactment last October and what is the total amount of such loans? Please provide a breakdown of the amounts of such loans, showing the average amounts and range of amounts.

Answer No. 2:

The provision in Pub. L. No. 96-466 of loan availability to eligible flight trainees was effective October 1, 1980. DVB Circular 22-80-39 instructions at paragraph 3(d)(2) were "Pending further instructions regarding this provision, all applications for loans based on flight training will be held."

Appendix E to DVB Circular 22-80-39, dated March 16, 1981, provided instructions for implementing these loan provisions. Consequently, flight loan applications were not processed until very late in the second quarter. The first report, included in the RCS 22-10, covers the first two quarters of FY 1981, and shows 59 applications received, 9 denied, none approved. Consequently, none have been granted or disbursed through March 31, 1981. This is attributable to the short time interval between

2.

transmittal of processing instructions and the report deadline. It is probable that those cases pending involve some development requiring a time lapse beyond the report deadline.

Question No. 3:

Last year, in lieu of terminating GI Bill benefits for flight and correspondence training, the Congress approved provisions of Public Law 96-466 which reduced the amount of the cost of such training reimbursed by the VA from 90 percent to 70 percent and 60 percent, respectively. What impact has implementation of these provisions had in terms of the numbers of individuals enrolled in such programs and the cost of these benefits?

Answer No. 3:

The effects of Pub. L. No. 96-466, for the most part, have yet to have much impact on the flight and correspondence programs. The reductions of payments for these programs did not apply to persons in training on September 1, 1980, as long as they stayed continuously enrolled in flight or correspondence training. As a result, there are still persons in training who are being paid at the old rate.

Through March, 11,167 persons have taken flight training this year, compared to 14,781 at that time last year. Average costs through March are $2,554 as compared to $2,113 through March of 1980. These higher average costs reflect increases in the cost of flight training and, for the most part, are being paid to veterans who receive 90 percent of fees rather than 60 percent.

There have been 29,333 correspondence trainees through March 1981 as compared to 34,440 through March of 1980. Average costs this year have been $260 as compared to $240 last year.

It is expected that the effects of Pub. L. No. 96-466 will begin to show in the latter half of FY 1981.

Question No. 4:

With respect to the savings that are estimated to result from termination of GI Bill benefits for flight and correspondence training, I note that the VA's original budget

3.

estimate for Fiscal Year 1981, submitted in January 1980, indicated a correspondence training unit cost of $305. As reflected in the VA's budget submission for Fiscal Year 1982, the current unit-cost estimate for Fiscal Year 1981 remained at $305 and the unit cost estimate for Fiscal Year 1982 is $306.

A. Please clarify whether these current estimates reflect the reduction from 90 to 60 percent made by Public Law 96-466 in the portion of the cost of a correspondence course reimbursed by the VA, effective October 1, 1980.

(1) [If so] Please explain how the estimates of unit cost were arrived at.

(2) [If not] Please submit a revised cost-savings estimate.

B. With respect to the number of trainees projected for Fiscal Year 1982, your budget estimates indicated that overall, there will be a 25-percent decline in the number of veterans training under the GI Bill. However, while you project a 25.6-percent reduction in the college and a 23.2-percent reduction in number enrolled in O.J.T. programs, you project declines of only 13.2 and 13.8 percent in the number enrolled in correspondence and flight training, respectively--smaller percentage declines than were projected in the Fiscal Year 1981 budget. These data suggest to me that the modifications in correspondence and flight training benefits made by Public Law 96-466 might not have been adequately taken into account in the preparation of your budget estimates. Were they? If so, please explain specifically how they were used in computing those estimates.

C. Based on data from the VA's Office of the Controller, 9,680 persons were enrolled in flight training at the end of April 1980 and 31,537 were enrolled in correspondence training under chapter 34. Please provide data on such enrollments for the end of April 1981.

Answer No. 4:

A. Budget estimates for correspondence training do reflect the decrease in payment from 90 to 70 percent as enacted by Pub. L. No. 96-466. The similarity between the 1981 budget estimate and the 1981 estimate in the 1982 budget is coincidental. The average costs shown in the 1982 budget are based on an anticipated average cost before the enactment of Pub. L. No. 96-466, multiplied by 7/9

4.

since trainees now will be receiving 7/9 of what they would have gotten before enactment of Pub. L. No. 96-466.

B. No consideration was given to reducing the estimated number of flight or correspondence trainees as a result of Pub. L. No. 96-466, because it was not clear at the time the estimate was made whether or not the reduction in payment would significantly reduce the number of trainees. It now appears that flight training, because of the high cost and the greater reduction in payment, is being affected by Pub. L. No. 96-466.

C. As of the end of April, there were 7,064 veterans enrolled in flight training while there were 27,225 veterans enrolled in correspondence training.

Question No. 5:

I am deeply concerned that total elimination of correspondence training will deny some veterans--particularly those who are on active duty, those who live in geographically remote areas, and those who may have handicaps or family responsibilities that make classroom attendance impractical--the opportunity to utilize their GI Bill entitlements. Likewise, elimination of flight training benefits would deny some veterans the opportunity to turn their military experience and learning into a valid occupational pursuit. Please comment on these concerns.

Answer No. 5:

Our years of experience in administering education programs for veterans convinced us that correspondence courses and flight training have not fulfilled their intended purpose--helping the beneficiary adjust to his or her changed circumstance and providing training required for basic employment. There is ample evidence that training offered by correspondence courses and flight training do not lead to jobs for a majority of trainees and that the courses tend to serve avocational, recreational and/or personal enrichment goals, rather than basic employment objectives. This position is bolstered by three reports made in recent years concerning these programs.

If we conclude that flight training and correspondence study do not aid in achieving employment for the majority of individuals, the Federal Government should not be called upon to fund such training. Regrettably, some well-intentioned people will have to seek other means to attain their vocational goals. However, we believe the total population will be small.

5.

Question No. 6:

The National Home Study Council suggested in its testimony that if correspondence training benefits are eliminated many veterans will enroll in higher-cost programs of education or training and, instead of a cost savings, an increase in costs would actually result. Please comment on this aspect of the Council's testimony.

Answer No. 6:

There is no evidence that if correspondence study is eliminated that many veterans will enroll in higher-cost programs of education or training.

Question No. 7:

With respect to S. 1059, under which the compensation benefits of certain veterans awarded compensation at the total disability rate on the grounds of individual employability would be reduced by the value of social security benefits that they receive by reason of disability or having reached age 65, would you consider it equitable, under such a measure, to ignore income from other private or public plans or programs to which the individual has contributed and is receiving benefits based on age or disability, or to ignore income from savings and investments and other forms of income?

Answer No. 7:

Many important issues must be addressed in any cogent analysis of the merits of S. 1059, a proposal which would introduce fundamental changes in the manner by which compensation eligibility is determined.

On one hand, there is a certain logic in the bill's apparent purpose. If additional compensation is being paid a veteran solely because of unemployability, is it not duplicative to continue that extra amount once retirement age is reached and Federal retirement benefits are being paid? Viewed strictly in these terms, it holds an attraction to anyone concerned with fiscal integrity.

However, sight must not be lost of the need for the orderly, philosophically consistent evolution of the disability compensation program, which comprises one of this

6.

nation's most important acknowledged obligations to its service-disabled veterans. The enactment of S. 1059 would, for the first time, interject a financial need factor among the eligibility criteria, and recognize retirement age as affecting the nation's obligation to compensate.

Outside income from any source reduces all veterans' financial need to be compensated by the VA. Consideration must be given to whether it is consistent to isolate a single category of compensation recipients for rate reductions, while other categories (such as those with "schedular" ratings) would remain unaffected. If outside resources are to be taken into account in determining compensation rates, your question as to which sources of income should be counted must be addressed. If only social security or other "retirement" income sources would be counted, the rationale apparently would be that compensation rates, based upon average impairment of earning capacity, should be reduced (discontinued?) at retirement age. That policy would appear to extend, logically, beyond "code 18" compensation cases to all others.

We believe that S. 1059 must be viewed in the context of these extremely weighty considerations.

Question No. 8:

A. What would be the Fiscal Year 1982 cost savings that would result from legislation to limit, effective October 1, 1981, the payment of burial and plot allowances under sections 902(a) and 903(b)(2) of title 38, respectively, to a veteran with a permanent and total service-connected disability and to a veteran who either was a pension recipient under chapter 15 or who, during the last year before his or her death, had income that was no greater than the applicable maximum pension benefit under chapter 15?

B. Please provide an estimate for such a proposal adding service-connected veterans rated at 90 percent and above, then 80 percent and above, and so forth down to 10 percent and above.

Answer No. 8:

A. The Fiscal Year 1982 cost savings that would result from legislation to limit, effective October 1, 1981, the payment of burial and plot allowances under sections 902(a) and 903(b)(2) of title 38, United States Code, respectively, to a veteran with a permanent and total service-connected

7.

disability, and to a veteran who either was a pension recipient under chapter 15 or who, during the last year before his or her death, had income that was not greater than the applicable maximum pension benefit under chapter 15, is shown below.

FY	Reduction in Burial Allowances	Reduction in Burial Plots	Cost Savings ($ millions)
1982	260,000	226,000	$115.8

B. If certain Compensation cases were included in the above estimate for FY 1982, the savings would be:

Category	Reduction in Burial Allowances	Reduction in Burial Plots	Cost Savings ($ millions)
90%	259,900	225,910	$115.7
80%	259,650	225,690	$115.6
70%	258,500	224,700	$115.1
60%	256,850	223,000	$114.4
50%	255,350	221,600	$113.7
40%	252,850	219,500	$112.6
30%	248,400	215,600	$110.6
20%	243,100	210,900	$108.2
10%	233,000	201,000	$103.5

Income is assumed to be annual countable income as defined under the Improved Pension program.

Chairman SIMPSON. I have questions. You've indicated that the VA would oppose S. 1066, which is the limitation on GI bill benefits for veterans more than 5 years out of the service with this income limitation. I think you indicate that it might function as a disincentive for self-improvement for certain middle-income veterans.

Would your recommendation be any different if the income cutoff were raised to some more acceptable level, say $30,000 or $40,000 per year? Is there any point in your mind at which we might assume from the amount of a veteran's income that he or she appears well enough readjusted that he or she needs no further GI bill assistance?

Many of these pieces of legislation are as provocative for me as they are for you, or for the veterans organizations, or for the public, and I'm just asking whether there is such a level?

Ms. STARBUCK. I would hesitate to set one, Mr. Chairman. I think if we begin to talk about levels of income, then we have to go back of that amount and see what that individual's responsibilities are with respect to family support and with respect to the maintenance of households. We could get into a never-ending hassle with respect to determining what really would be available out of a $20,000 or $45,000 income for a veteran to pursue an education.

Chairman SIMPSON. So you would not reflect that there would be any level where that might be——

Ms. STARBUCK. I would find it very difficult, sir.

Chairman SIMPSON. With respect to S. 1059, which is the social security offset, you testified that if they were given prospective, I

think your phrase was, prospective application only, the cost savings would be substantially less than the $154 million that you otherwise project.

How much less?

Ms. STARBUCK. We don't have that figure, Mr. Chairman. And if we can come up with it, we'll surely give it to you.

Chairman SIMPSON. Surely.

[Subsequently, the Veterans' Administration submitted the following information:]

FOR PROSPECTIVE CASES ONLY

[Dollars in millions]

	Cases	Cost savings
Fiscal year:		
1982	325	$1.9
1983	975	5.8
1984	1,600	9.6
1985	2,200	13.6
1986	2,825	16.9

Chairman SIMPSON. I know you had not as much time as you would have enjoyed in dealing with these questions. I would have loved more time back in March, but did not have the luxury of that.

Ms. STARBUCK. Well, from March to May, it's getting worse from April to September.

Chairman SIMPSON. Yes; yes, indeed. The budget process is extraordinarily complex. And we'll see it today in whatever comes out of the House, and where we go from there. We haven't even started with hard-line appropriations, so we'll see whether we breach ceilings and what we do when we get to playing the game with the pressure on.

Ms. STARBUCK. Yes, sir.

Chairman SIMPSON. The full-court press will be interesting to see.

I'm interested in your cost-savings idea concerning the temporary 100-percent disability evaluation that is routinely given to hospitalized veterans with lesser service-connected disability instead of the lesser evaluation to which they would otherwise be entitled.

If you have those figures, could you tell us approximately how many veterans it would affect? That is, how many veterans are likely to be hospitalized without disruption to their income? Do you have any kind of a figure on the possible cost savings from such a measure?

Ms. STARBUCK. No, sir, I do not have at the moment. This would have to be developed and that's why we offer to work with the committee on this.

Chairman SIMPSON. Yes; we will.

Ms. STARBUCK. This was designed initially to protect an individual's background when he did enter the hospital, protect his savings, or his earnings. But, we think it's time we took another look at it on the basis that many people are not precluded from protection by the grant of sick leave or sick benefits, or a number of

other options that are available. So, I think it's time we looked at it.

Chairman SIMPSON. Well, the staff of this committee, both the majority and minority staff and professional staff, however they may be categorized, look forward to working closely with the personnel at the VA. It's been tough for me as a brand-new chairman of this committee to deal with the Veterans' Administration when the top slots have not been filled.

And I appreciate the assistance of Mr. Coy and yourself in filing the gap. But, you know, now we should be able to get on with a better type of communication and flow, and that's so critically necessary.

With respect to your views on S. 1061, which deals with consolidated VA and DOD checks, I know you are aware of the extensive computerization of payment facilities within the Department of Defense. Their new system is the electronic funds transfer, where they will be able to deposit checks directly into the payee's bank account, eliminating paperwork and postage.

Ms. STARBUCK. We do the same thing, Mr. Chairman.

Chairman SIMPSON. Yes. What effect does the existence of that process have on your review today of S. 1061?

Ms. STARBUCK. That would basically have no effect on it, sir.

Chairman SIMPSON. Do you work with the Department of Defense and their capabilities? Or, have you pursued that with them?

Ms. STARBUCK. We have not recently pursued that. The last review of that was made in about 1967. The liaison that we have established with the Department of Defense with respect to the compensation and pension rolls has been on a matching basis that would permit them to make adjustments in retirement benefits where compensation was incorrectly recorded in their records.

Chairman SIMPSON. How long has your agency utilized the electronic funds transfer?

Ms. STARBUCK. About 3 or 4 years, Mr. Chairman.

And it's increasingly successful, we keep reminding people of the availability of this benefit.

Chairman SIMPSON. How do you notify them of that service?

Ms. STARBUCK. We have initially started out with a check insert to all beneficiaries when the program was first started. And now, periodically, for those who have not yet taken advantage of it, we provide a check insert asking them again to consider.

Chairman SIMPSON. An how many are taking advantage of it? Do you have a percentage of those eligible to take advantage of it, and those who do so?

Ms. STARBUCK. I don't have any figures on that available, but I'll be happy to furnish them.

Chairman SIMPSON. If you could.

Ms. STARBUCK. I will, sir.

[Subsequently, the Veterans' Administration submitted the following information:]

As of May 1981

Number eligible for electronic funds transfer	4,587,988
Number enrolled for electronic funds transfer	999,442
Percent of eligibles enrolled	21.78

Chairman SIMPSON. Well, just one final question.

With respect to the burial benefits limitation named in S. 1062, I understand your criticism of the needs test contained in that bill. Your substitute test, to limit the burial expenses or the burial benefit only to compensation and pension recipients, sounds to me like a very interesting and appropriate procedure. And certainly a more easily administered alternative.

I would be very interested in your revised cost estimate for that measure. That issue of non-service connected burial benefits will, indeed, come before the committee. I was interested in the sizable amount of increase in that in the past. And of course, having practiced law in my other life back in Wyoming, I remember it well.

[Subsequently, the Veterans' Administration submitted the following information:]

The revised estimate follows:

[Dollars in thousands]

	Reduction in burial		Benefits/ savings	Man-years	Administrative savings
	Allowance	Plots			
Fiscal year:					
1983	233,000	204,100	−$105,400	−37	−$691
1984	236,500	206,900	−107,100	−38	−706
1985	238,000	209,700	−108,800	−38	−720
1986	240,500	212,600	−111,100	−38	−735
1987	243,000	215,500	−112,500	−39	−750

Chairman SIMPSON. In the probate administration in the State, the veterans' benefit was always a very quick part of the credit against the creditor's claim from the funeral director. And that was a very swift process. But that's something that we will be looking into.

And one other question, could you tell me what is the default rate in the educational loan program, and what is the dollar amount of those defaulted loans?

Ms. STARBUCK. I was hoping I could make it through the day without that.

Chairman SIMPSON. I could see you relaxed there for a minute and I thought I'd shoot that by you.

Ms. STARBUCK. That gets my attention every time, Mr. Chairman. Cumulatively, we've had 51,751 loans mature. And unfortunately 34,708 of those are in default, for a default rate as of the end of December 1980 of 67.1 percent.

Chairman SIMPSON. And the dollar total?

Ms. STARBUCK. A dollar total of some $32,600,000.

We have recently, Mr. Chairman, provided that each of our regional offices who have custody of these defaulted loans will prepare them for presentation to our district counsels for enforced collection or the filing of suits for collection in State or Federal courts.

We will be receiving our first report on that particular activity sometime next week. And if you wish, I will furnish a copy of that to you. I feel that the pressures that can be brought by the district

counsels throughout the country in pursuing collection of these indebtedness, will have very material effect.

The administrative procedures that have been available to us in past years have not done the job for us. But with the authorities now granted by agreement between the Department of Justice and the Veterans' Administration, where enforced collection can take place, we feel that we have at least a little light at the end of the tunnel.

[Subsequently, the Veterans' Administration submitted the following information:]

DISTRICT COUNSEL DEBT COLLECTION REPORT, EDUCATION LOAN DEFAULTS: RCS 20–13A NATIONWIDE SUMMARY

		October	November	December	January	February	March	April	May	June	July	August	September	Fiscal year to date
01	Number of accounts on hand start of month								36	222	524	718	1,074	
02	Dollar value of accounts start of month								$22,873	$136,710	$325,148	$451,948	$669,072	
03	Number of accounts referred during month							42	188	313	203	380	320	1,446
04	Dollar value of accounts referred during month							$27,113	$115,442	$196,780	$131,708	$234,172	$200,522	$905,737
05	Total number of dispositions during month							6	2	11	9	24	15	67
5A	Paid in full									2		5	4	11
5B	Compromises													
5C	Waivers													
5D	Term by district CSL										1		1	2
5E	Return by district CL							6	2	9	8	16	9	50
5F	VA adjustment											3	1	4
06	Total dollar value of dispositions during month							$4,240	$1,605	$8,342	$4,908	$17,408	$9,075	$45,218
6A	Cash collections							$74	$123	$2,232	$858	$3,311	$4,170	$10,768
6B	Debt vouchers										($599)			($599)
6C	Compromises													
6D	Waivers										$800		$171	$971
6E	Term by district CSL							$4,166	$1,482	$5,675	$3,849	$11,667	$3,789	$30,628
6F	Return by district CL									$435		$2,070	$945	$3,450
6G	VA adjustment													
07	Number of accounts on hand end of month							36	222	524	718	1,074	1,379	3,953
08	Dollar value of accounts on hand end of month							$22,873	$136,710	$325,148	$451,948	$669,072	$860,519	
09	Number of accounts on hand EOM in repay status							3	7	27	54	79	109	
10	Dollar value on hand EOM in repay status							$1,792	$3,618	$15,799	$28,150	$39,650	$51,655	

Chairman SIMPSON. Have you ever considered the light at the end of the tunnel might be a train?

Ms. STARBUCK. The train has already come into the station, sir.

Chairman SIMPSON. Well, there's an interesting point. We're going to pursue that in this committee, because I think somehow we've reached an appraisal that a veteran never takes advantage of a situation, or does a bad thing. I once happened to practice law and was an attorney, and now I'm here and I notice that there are the same percentage of people who take advantage of the situation in the veterans ranks, as in the lawyers ranks, as in the congressional ranks.

And the sooner we get back to that basic premise, I think we'll begin to again weed out some of the problems that are there.

Thank you very much. And I look forward to working with you and so does the committee staff, and you've been more than helpful to us.

Ms. STARBUCK. Thank you very much, Mr. Chairman.

Chairman SIMPSON. And now, Don Schwab, please, the legislative director of the Veterans of Foreign Wars.

Good morning, Don, how are you?

Mr. SCHWAB. Good morning.

Chairman SIMPSON. May I please remind all of those who will be testifying in the next few minutes, to observe the 5-minute rule with your testimony, as a summary, and then we will have time for appropriate questions. I'm willing to stay here as long as you are, but I do want to emphasize the observation of that rule.

Thank you very much.

Mr. SCHWAB. Thank you, Mr. Chairman, and as you requested, I will summarize my statement.

Chairman SIMPSON. Would you like to wait a minute, Don, until the room settles down a bit.

Mr. SCHWAB. Alright.

Chairman SIMPSON. If we could have a little—thank you.

Please proceed.

TESTIMONY OF DONALD H. SCHWAB, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. SCHWAB. I thank you for the privilege of appearing to present the views of the Veterans of Foreign Wars of the United States, with respect to the proposed pending legislation.

As you pointed out in your introductory remarks, Mr. Chairman, with respect to cost-savings legislation, none of us really know where we are at this point in time. The original Reagan administration mark of the budget required $831 million reduction in the VA budget.

The President has now stated he backs the Reagan bipartisan budget resolution, which would restore $600 million in budget authority, and $400 million in outlays to the Veterans' Administration budget.

With respect to reconciliation, the Senate recently passed Senate Concurrent Resolution 9 requiring over $400 million in cost-savings legislation. And the House is considering $110 million. As I say, we

don't know where we are. It appears that reductions in the VA budget may end up somewhere around $400 million to be made up.

The VFW fully supports the effort of the President to right the economy. We believe there is sufficient fat, fraud, and waste in the VA, as in all other Government agencies, to negate the necessity of cost-savings legislation if tenaciously pursued.

I think the ranking minority member of this committee pointed it out quite well in the Congressional Record last December, when he cited that debts owed the Veterans' Administration and not deemed uncollectable represents $643.7 million.

With respect to the pending legislation, Mr. Chairman, we oppose passage of S. 916, which would eliminate the dental care for those with service-connected noncompensable dental conditions the first year after separation. We believe some cost savings could be realized in this area.

If dental care were accomplished within the VA, rather than contracting it out. The need for this program, I think, is quite evident. When you consider the cost-savings projected amounts to $20 million in the fiscal year 1982 in eliminating the program. Veterans are being separated with service-incurred dental deficiencies which are not corrected at the time of discharge.

S. 920 would require veterans seeking treatment for a non-service-connected disability, including those with service-connected disabilities rate at 40 percent or less to pay the first $5 of beneficiary travel. We oppose this—passage of this legislation.

Those most affected would be those in receipt of pension, and a veteran alone in receipt of pension receives $4,460 a year including all income from all other sources including social security, which breaks down to $85 a week.

Such a veteran requiring renal dialysis three times a week would have his spendable income reduced to $70 a week. And the initial pension payment, or the assured income under Public Law 95–588 is only $69 above the Orshansky poverty level for a person alone.

I was somewhat surprised with a statement made by the Veterans' Administration that beneficiary travel payments were, for the most part, less than $5, and I certainly would like to see a breakdown of that, and where the survey was made.

S. 1058 would provide for the recovery of the United States of certain health care provided in Veterans' Administration facilities, dealing with workmen's compensation, automobile accidents that are covered by no fault insurance, and also veterans who are subject to violent attacks on the streets.

We're mandated, Mr. Chairman, to oppose third-party reimbursement for veterans with non-service-connected disability. We realize that the bill under consideration doesn't directly address that issue, but we fear it would set a precedent and be the precursor of requiring third-party reimbursement for all seeking care for non-service-connected disabilities.

I think when the insurance companies testified to the last Congress on this same subject, they indicated if third-party reimbursement were to become law that they would have to increase their premium rates to all subscribers by at least 10 percent. I think that was the figure they gave at that time.

And in addition, and not covered in my statement, the VA testified last Congress also, that of non-service-connected veterans receiving treatment in VA hospitals, 68 percent had no insurance whatsoever, 16 percent had private insurance, and 16 percent had public insurance, medicare/medicaid.

However, in discussing this problem with hospital directors at a meeting last fall, they indicated to me that in most instances, even those veterans with either private or public insurance, when they sought care at the VA hospital only because benefits had expired under the policies they had.

Now, S. 1059 would add a new section 356 to title 38, United States Code, to reduce the compensation awards predicated upon an extra-schedular rating due to unemployability. Mr. Chairman, we oppose imposing any needs test on any veteran's benefit, and particularly the compensation program. And for that reason we oppose passage of S. 1059.

We realize that a little over half of the veterans drawing the 100-percent rating are extra schedular, and rated so because of unemployability. And these are very sad cases, they are primarily psychiatric cases and those with epilepsy who have extreme difficulty in finding employment.

S. 1060 would amend title 38, United States Code, to permit veterans with service-connected disabilities rated 10 or 20 percent to elect to receive a single lump-sum compensation payment as opposed to monthly payments. We oppose the taxation, Mr. Chairman, of compensation for whatever reason.

But the basic thrust of the bill to offer a lump-sum payment to these veterans, we think is a good one, I wish I had thought of it. I think there's a savings involved to the Veterans' Administration in bookkeeping and postage that would be considerable.

S. 1061 would title 38, United States Code to authorize retired pay and pension or compensation to be payable in one check by the department from which the veteran is retired. I heard Dorothy Starbuck say that this really wouldn't save money, I would certainly like to see figures on that. I believe it would save money, not only in recordkeeping and postage, I think the savings would be considerable.

I don't think any retiree would object to this, and I thought objection might come from the Department of Defense because of the increased workload, but Dorothy Starbuck said that wasn't the case, they were in favor of it, and I think it's a good bill, sir.

S. 1062 would deny the $300 burial allowance in cases where a veteran dies of a non-service-connected disability who had an adjusted income of $20,000 or more the previous year, or a corpus of estate of $200,000 or more.

Again, we object to this, Mr. Chairman. Subjecting a veterans' benefit to a needs test, and in addition, I don't think in today's economy you could consider income of $20,000 enough to place a veteran's family in an affluent status.

S. 1063 would amend title 38 United States Code, section 906 by repealing authority to permit reimbursement for the cash equivalent of a VA furnished headstone or marker. The cost of those markers is presently approximately $59, Mr. Chairman. It is fur-

nished to veterans who are not interred in a national cemetery upon request.

Chairman SIMPSON. Mr. Schwab, I hate to keep harping on this, but I've got to stay within the 5 minutes, I've given you 8. Could you summarize for me, please, and I assure you we will read your written testimony, but we are not going to finish. I have to chair another hearing this afternoon. If you could just give me a summary in 1 minute, please.

Mr. SCHWAB. I have been summarizing.

Chairman SIMPSON. I know you have, keep going.

Mr. SCHWAB. Believe me. I'll leave you with just this thought. We oppose subjecting compensation or any other veterans' benefit to a needs test. We oppose the taxation of compensation in any form. And I'll leave you with this thought and reiterate what our national commander in chief said when he testified before this committee in March:

> We must never forget or permit the nation to forget, that those of us who served during periods of war and hostility have rendered a very special service to our great nation. We have given years from our lives, we have given years from our families, and we have given years from our personal endeavors, if not also our physical and mental health.

And I'll be happy to respond to any questions you may have, Mr. Chairman.

Chairman SIMPSON. Well, thank you for your understanding of the time problem I have there.

[The prepared statement of Donald H. Schwab follows:]

V F W VETERANS OF FOREIGN WARS OF THE UNITED STATES

NATIONAL LEGISLATIVE SERVICE

Office of Director

PREPARED
STATEMENT OF

DONALD H. SCHWAB, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

WITH RESPECT TO

PROPOSED COST-SAVINGS LEGISLATION

WASHINGTON, D. C. MAY 6, 1981

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Thank you for the privilege of appearing before this distinguished Committee to present the views of the Veterans of Foreign Wars of the United States.

My name is Donald H. Schwab and it is my privilege to serve the more than 1.9 million men and women of the Veterans of Foreign Wars as their National Legislative Director.

Mr. Chairman, as you are aware, the Reagan Administration's March 10th mark of the budget would reduce Function 700, Veterans Benefits and Services, by $743.7 million in budget authority and $830.9 million in outlays and eliminate 7,995 personnel during the fiscal year 1982. Subsequently, the President of the United States in a televised address to a Joint Session of Congress last week indicated

that he now supports the Reagan Bipartisan Budget Resolution, commonly referred to as the Gramm-Latta Amendment which would restore $600 million in budget authority and $400 million in outlays to the Veterans Administration budget. We of the V.F.W. have worked with the Administration at the very highest levels and through a nation-wide grassroots effort to restore funding to the budget for the benefit of our nation's veterans. We trust that whatever budget is passed by Congress contains at least the restoration of funding in the Reagan Bipartisan Budget Resolution for the Veterans Administration.

Mr. Chairman, among resolutions passed by the voting delegates to our 81st National Convention held in Chicago, Illinois last August are Resolution No. 609 calling for an adequate VA budget to ensure the proper level of health-care and benefit programs for veterans and Resolution No. 697 opposing the curtailment or elimination of earned veterans' benefits, copies of which are appended to my testimony. Although the V.F.W. fully supports President Reagan's sincere and dedicated effort to stabilize our nation's economy we do not believe this should be accomplished at the further expense of our nation's veterans who have rendered a very special service. Under the prior Administration the VA budget fell from 5 percent of the federal budget in outlays to 3.3 percent last year and 15,000 hospital beds were closed. We believe that sufficient fat, fraud and waste exists within the Veterans Administration, as in other agencies, to eliminate the need for any cost-savings legislation if tenaciously pursued. For example, as of last September active accounts with respect to which debt-collection efforts have not been terminated by the Veterans Administration is enormous, representing $643.7 million. This was graphically illustrated by the Ranking Minority Member of this Committee, the Honorable Alan Cranston, on page S15957 of the Congressional Record of December 9, 1980. As our Commander-in-Chief, Arthur Fellwock, testified before this Committee in March, the V.F.W. stands ready to lend its full support in the

eradication of fat, fraud, wast or abuse anywhere within the Veterans Administration or its programs.

On April 2 the Senate passed S. Con. Res. 9 mandating cost-savings legislation by the Veterans' Affairs Committee in the amount of $446 million in budget authority and $407 million in outlays for the fiscal year 1982. Cost-savings in the form of reconciliation on the House side are presently proposed at $110 million. Therefore, at this point in time we have no firm figure to be met with respect to cost-savings legislation. However, if additional belt tightening is necessary to meet the President's goal which would not adversely affect the integrity of the entitlement programs and the VA hospital and medical care system, I would suggest to you, Mr. Chairman, that those members of Congress who voted for cost-savings be the ones to say where they will be made.

Having said the foregoing, the following comments are made with respect to pending proposed cost-savings legislation, all of which was introduced by the Chairman of this Committee, the Honorable Alan K. Simpson.

S. 916 would eliminate out-patient dental care for service-connected non-compensable dental conditions the first year following separation unless related to service trauma or prisoner of war status. Mr. Chairman, the V.F.W. strongly opposes passage of S. 916 to eliminate presumptive service-connection for out-patient dental treatment provided veterans the first year following separation from the armed forces under the provisions of 38 USC 612 (b). This bill is one of the pieces of negative legislation proposed by both the Carter and Reagan Administrations for fiscal year 1982 to save $31.9 million in the VA budget.

Upon induction, enlistment or commissioning in our armed forces members are examined and presumed to be mentally and physically in good health, to include dental health. Dental examination has been one of the most thorough prior to entering service. Unfortunately, and for a number of reasons not the least of

which is the shortage of dentists throughout the Department of Defense, those men and women separated from service often have dental defects incurred in service which should have been corrected while on active duty. Therefore, the V.F.W. fully supports continuing authorized dental care by the VA the first year following separation from service. We do believe, however, cost-savings could be realized by accomplishing such care in VA facilities rather than contracting out.

S. 918 would terminate flight training and correspondence training effective July 1, 1981. Although the bulk of complaints we have received with respect to eliminating these benefits has come from the schools involved and not the veterans, the V.F.W. is deeply concerned regarding the elimination of correspondence training for Vietnam veterans who are so very disabled as to be house-bound. To deny this group of their only opportunity to advance their education would be insensitive, indeed.

S. 919 would place a 12 percent cap on the total amount appropriated for special pay authorized Veterans Administration physicians and dentists by Public Law 96-330 with the expectation of saving $40 million. Mr. Chairman, passage of this bill would gut a major provision of Public Law 96-330, the "Veterans Administration Health-Care Amendments of 1980" which became law over the President's veto by a roll-call vote of 85 to 0 in the Senate and 401 to 5 in the House of Representatives. As you are aware, the primary thrust of this portion of the law is to recruit and retain high caliber full-time physicans within the Veterans Administration. The President's Office of Management and Budget has stated that these bonuses amount to salary increases of 25 to 36 percent and make their total pay significantly higher than that of any other group of federal physicians. This is greatly misleading since no mention was made of the fact that physicians and dentists within the Department of Defense are entitled to additional dollar benefits such as the commissaries, post exchanges and free medical and dental care

for themselves and free medical care for their families. The V.F.W. opposes the proposed cap.

S. 920 would require veterans seeking treatment for a non-service-connected disability, including those who are service-connected at a rating of 40 percent or less, to pay the first $5 of beneficiary travel effective July 10, 1981. The Office of Management and Budget believes this would permit a savings of $35 million in travel reimbursement and another figure places the savings at $20 million. Such action would, of course, hit hardest those who can least afford any reduction in spendable income. For example, a veteran alone in receipt of pension under the provisions of Public Law 95-588 has an assured income level of $4,460 per annum counting all income from all sources including social security, which is $69 per annum above the Orshansky poverty level, which breaks down to $85.76 a week. Such a veteran needing renal dialysis three times a week would have his or her spendable income reduced to $70 a week or $3,640 per annum. The proposed deductable would serve to deny VA medical care to needy veterans. We, therefore, oppose passage of S. 920.

S. 1058 would add a new subsection (e) to 38 USC 610 to provide for recovery by the United States of the cost of certain health-care provided by the Veterans Administration. Briefly, the bill would provide for the recovery of the cost of treatment for veterans suffering from a non-service-connected disability the result of employment covered by workmen's compensation or other plan which provides reimbursement for or indemnification of the cost of health-care and services by reason of disability; the result of a motor vehicle accident covered under the law of a state requiring automobile accident reparations insurance (no-fault), or the result of a crime of personal injury that occured in the state or political subdivision thereof in which a person injured as a result of a crime is entitled to receive health-care and services at such state or subdivision's expense.

Under the provisions of the Federal Medical Recovery Act, encoded as 42 USC 2651 and 2652, the Veterans Administration has actively pursued recoveries in workmen's compensation, auto no-fault and crime victims compensation cases, although with varying degrees of success. Impediments to such recoveries exist when state legislatures have enacted statutes such as workmen's compensation acts, compensation to victims of crime acts, and automobile reparation acts which are so worded as to provide payment to private health-care providers but exclude payment to federal health-care providers. The intent of the instant legislation is by statute to override state laws and state court rulings precluding such recoveries and forestall future litigation and, thus, provide for uniformity of collection procedures in all states. Mr. Chairman, we view this bill with some apprehension and we are mandated by our current Resolution No. 756 to oppose third party reimbursement by private insurance carriers for care furnished veterans in VA facilities and a copy thereof is appended to my testimony. Our concern is that such action would be the precursor of mandated third party reimbursement for all veterans suffering non-service-connected disabilities.

S. 1059 would add a new section 356 to Title 38 USC to reduce compensation awards predicated upon an extra schedular rating due to unemployability so as not to exceed the greater of the 100 percent rating plus authorized allowances for dependents reduced by social security benefits or the actual schedular rating of the disability plus additional compensation for dependents disregarding the unemployability aspect. This proposal is part of a megacap plan by both this and the previous Administration to place a cap on disability benefits. Compensation for service-connected disabilities has historically been payable regardless of any other income to which the veteran is entitled and the V.F.W. must oppose passage of S. 1059 in the strongest possible terms.

S. 1060 would amend 38 USC 315 to permit veterans with service-connected

disabilities rated 10 or 20 percent to elect to receive a single lump-sum compensation payment as opposed to monthly payments based upon actuarial projections. The lump-sum payment would be reduced by taxing the entire amount at the prevailing interest rate the United States government must pay for funds it borrows which is presently 15 percent. An eligible veteran would have 60 days from the date such an offer is made to indicate acceptance. To make this proposal quite clear, a veteran now rated at 20 percent receives $99 a month or $1,188 tax free compensation per annum. If actuarial tables indicated the veteran in question would live 10 more years he or she would be entitled to a gross settlement of $11,880 reduced by $1,782 tax (figured at 15 percent, the present interest rate of Treasury bills) for a net cash settlement of $10,098.—Obviously, many veterans would opt for such a lump-sum settlement, but the V.F.W. opposes taxation of compensation. Should this legislation be advanced, it is assumed medical care to which the veteran is now authorized would continue to be furnished by the Veterans Administration as prior to the cash settlement and, also, should the disability rating subsequently increase the higher rate would be paid following recoupment of the lump-sum payment, but these assumptions should be fully clarified.

S. 1061 would amend 38 USC 3105 to authorize retirement pay and pension or compensation to be payable in one check payable by the Department from which the veteran is retired with the Veterans Administration reimbursing that Department for the amount of compensation included in the check and each check issued would be accompanied by a statement clearly identifying that portion attributable to retired pay and the amount therein consisting of tax free pension or compensation. Nearly a quarter of a million armed forces retirees are also in receipt of compensation payable by the Veterans Administration for their service-connected disabilities and it is doubtful they would seriously object to the proposed legislation. Cost savings in postage for the Veterans Administration would be

considerable. The only readily apparent objection might come from the Department of Defense since, undoubtedly, the finance offices of the various services would incur an increased workload by virtue of having to furnish a breakdown of retired pay and compensation with each check. In addition, those retirees whose checks are electronically transferred to their bank would require a separate notification mailed to their home address with respect to the breakdown of their check transmitted to the bank.

S. 1062 would deny the $300 burial allowance in cases where a veteran dies of a non-service-connected disability and the year preceeding death had an adjusted income of $20,000 or more or a corpus of estate of $200,000 or more. The V.F.W. adamantly opposes subjecting veterans' benefits to a needs test. An adjusted gross income of $20,000 a year in this day and age does not make a veteran and his family affluent by any means.

S. 1063 would amend 38 USC 906 (d) by repealing authority to permit reimbursement for the cash equivalent of a VA furnished headstone or marker. Inasmuch as this reimbursement is for those not interred in a national cemetery and paid at the discrecion of the Administrator "having due regard for the circumstances in each case" the proposed legislation seems rather petty. The cost of a government headstone or marker is approximately $59 and some cemeteries have restricted the erection of "military markers" as furnished by the VA.

S. 1064 would amend 38 USC 314 to require that veterans in receipt of compensation at the 10 or 20 percent rating be paid compensation annually at the end of each fiscal year rather than monthly as now. There is no question such deferral would work a hardship on some veterans who have financial obligations predicated in part upon their compensation checks and if advanced should be permissive rather than mandatory as in the case of the lump-sum settlement proposed by S. 1060. In addition, as S. 1060 would tax lump-sum compensation settlements by

the going rate on Treasure bills, veterans should be paid the same rate of interest on deferred payment if the government is going to use their compensation money for the period of a year.

S. 1065 would terminate the educational loan program authorized by 38 USC in its entirety for a projected savings of approximately $6 million in the fiscal year 1982. Unfortunately, this program has been fraught with fraud, abuse and conflict since its inception and has contributed in no small part to the large indebtedness owed the VA. With the present availability of student loans from other sources, we do not envision real hardship to veterans by passage of S. 1065.

S. 1066 would amend 38 USC 1661 (c) to deny educational assistance to veterans five years following separation from the armed forces if his or her adjusted gross income is greater than $20,000 or $40,000 if the veteran filed a joint return the previous year. Again, the V.F.W. opposes subjecting veterans' programs to a needs test. In addition, the bill does not make a great deal of sense since post graduate work is permitted under Chapter 34 and many pursuing such higher education have full-time jobs with income well exceeding the proposed limitation.

In closing, Mr. Chairman, permit me to reiterate the words of our Commander-in-Chief, Arthur Fellwock, when he testified before this Committee in March.

"We must never forget, nor permit the nation to forget, that those of us who served during periods of war and hostility have rendered a very special service to our great nation. We have given years of our lives, we have given years from our families, and we have given years from our personal endeavors, if not also our physical and mental health."

Thank you.

Resolution No. 609

VETERANS ADMINISTRATION BUDGET

WHEREAS, the Veterans Administration budget has been cut in proportion to the federal budget every year since 1975 when it was 5.1 percent to a programmed 3.4 percent in outlays in the Fiscal Year 1981 budget; and

WHEREAS, as a result, 7,000 hospital beds have been cut under the present Administration and 8,000 health-care personnel were eliminated or scheduled to be eliminated until through our efforts, Congress mandated the restoration of 3,800 of these positions; and

WHEREAS, veterans in need of hospitalization and medical care to which entitled by the law are denied such by the VA and referred to community resources which in many instances means lining up with welfare recipients; and

WHEREAS, compensation increases for those with service-connected disabilities and DIC for their survivors has not kept abreast with inflation; and

WHEREAS, only in this election year has the President recommended a meager 10 percent increase for Vietnam veterans availing themselves of educational benefits under the GI Bill notwithstanding that the Congressional Budget Office opined they needed a 20 percent increase in October, 1979 to catch-up and by October, 1980, would probably need a 30 percent increase; and

WHEREAS, medical programs passed by Congress and signed into law have been underfunded and under-staffed; and

WHEREAS, even though the F.Y. 1981 budget submitted by the President was approximately $750 million short of funding needed to meet the demand for health-care for our veteran population and adequately fund the benefit programs, the President and his Office of Management and Budget cut an additional $321.7 million; now, therefore

BE IT RESOLVED, by the 81st National Convention of the Veterans of Foreign Wars of the United States, that we continue our unabated efforts for an adequate budget that will insure that the health-care needs of our nation's veterans are met and that all other benefit programs are kept abreast with the cost-of-living.

Adopted by the 81st National Convention of the Veterans of Foreign Wars of the United States held in Chicago, Illinois, August 15-21, 1980.

Resolution No. 609

Resolution No. 697

OPPOSE CURTAILMENT OR ELIMINATION OF EARNED VETERAN BENEFITS AND PRIVILEGES

WHEREAS, there is a growing trend toward reduction of the earned benefits and entitlements of veterans, their spouses, dependents and survivors which were explicitly promised or provided by law or regulation in recognition of the hardships and dangers of service life; and

WHEREAS, the erosion of the earned benefits and entitlements are detrimental to the morale of veterans, active, reserve and retired; and

WHEREAS, the continued erosion and reduction of earned benefits and entitlements will adversely affect maintaining an effective and efficient military force needed for the security of the United States; now, therefore

BE IT RESOLVED, by the 81st National Convention of the Veterans of Foreign Wars of the United States, that we oppose all efforts by any individual, group, organization, government office, bureau or agency, or the United States Congress, to discriminate against a veteran, discharged under honorable conditions, or to eliminate or curtail in any manner their earned benefits or privileges.

Adopted by the 81st National Convention of the Veterans of Foreign Wars of the United States held in Chicago, Illinois, August 15-21, 1980.

Resolution No. 697

Resolution No. 756

REIMBURSEMENT OF VA HOSPITAL CARE COSTS

WHEREAS, the implementation of third-party reimbursement of medical care costs would raise a number of serious legal questions; and

WHEREAS, the passage of such legislation would diminish the integrity of the VA medical care system by necessarily imposing private insurance carrier regulation upon many facets of the operation of that system; and

WHEREAS, third party reimbursement would be cosmetic insofar as the VA is concerned since, according to VA figures 68 percent of the veterans hospitalized for non-service-connected disabilities carried no insurance, 16 percent held private insurance and 16 percent were insured under Medicare/Medicaid. However, even those with private or public insurance sought care from the VA only when benefits had expired under their insurance coverage; and

WHEREAS, the passage of such legislation would in no way enhance the VA medical care system's ability to accomplish its mission as funds derived from such reimbursement would not be under the control of the VA; and

WHEREAS, the passage of such legislation would thrust the VA into the mainstream of authorized health care providers, thereby changing its mission to one similar to hospitals in the private sector; and

WHEREAS, the passage of such legislation would accomplish the initial step of inclusion of the VA medical care system into a National Health Insurance scheme; now, therefore

BE IT RESOLVED, by the 81st National Convention of the Veterans of Foreign Wars of the United States that the imposition of reimbursement of medical care costs by private insurance carriers upon the VA be adamantly opposed.

Adopted by the 81st National Convention of the Veterans of Foreign Wars of the United States held in Chicago, Illinois, August 15-21, 1980.

Resolution No. 756

Chairman SIMPSON. Just a couple of questions. On the subject of the dental care bill, S. 916, if there were some reasonable way of guaranteeing that persons in active service would receive all appropriate dental treatment that they had requested and to which they were entitled under the law, would you still be resisting the elimination of any postdischarge dental treatments or benefits as provided in S. 916?

Mr. SCHWAB. Absolutely not, Mr. Chairman. If they were as thorough on an exit exam of the teeth as they are when they take people into the service, that would be fine. We would have no objection whatsoever.

Chairman SIMPSON. Good. I was interested in that.

You did not comment about the flight training program. What is the position of your organization with regard to that? Absent any objections, I assume you just have no strenuous objection to its termination?

Mr. SCHWAB. Sir, as stated in my testimony, the complaints with regard to the prospect of terminating flight and correspondence training have come primarily from the schools involved. I believe in the last letter I got—in the last year, I received one letter from a veteran written on flight school stationery.

Our concern—our primary concern in this area is that those Vietnam veterans who are so severely disabled as to be housebound, should not be denied the benefit of correspondence courses. They are their only opportunity to advance their education and fill their days.

And there's another side affect also, that of Armed Forces personnel on active duty stationed at sea or in isolated locations who rely pretty heavily on correspondence courses.

One other subject I didn't cover was the capping of physicians and dentists pay. It's in my prepared text. We oppose this, it would gut one of the primary provisions of Public Law 96-330, which was passed overwhelmingly over the President's veto in both the Senate and the House.

And when I testify before the Appropriations Committee later this week on the House side, I'm going to request that $5 million be funded for nurses, and $7 million be funded for physicians under the scholarship program.

Chairman SIMPSON. Well, I also appreciate your remarks in these other areas. The debt collection issue has been and is going to be the subject of much interest in the Veterans' Administration and this committee. We have the legislation in place and we have the regional VA attorneys now bringing suits in the Federal courts. We have credit bureaus involved, and that $630 million out there looks a lot bigger now and looks more attainable when we suddenly get to the crunch.

Mr. SCHWAB. Yes, sir.

Chairman SIMPSON. I appreciate and will appreciate the patience of your organization on the issue of overreacting to the budget cuts, at least until we find exactly what is going to occur, especially with regard to the health-care field, and the VA facilities. I think it's very important that there should be no signals going out to the various Veterans' Administration facilities throughout the country that so many beds will be tipped up on their end and veterans

tossed out and so on, until we actually come to the reality of where we are with regard to this issue.

So we will be involved heavily with you as we have in the past. I'm a lifetime member of your organization, and intend to enjoy very much that relationship and a continuing relationship with your Washington and State officials.

Thank you very much.

Mr. SCHWAB. Well, I would just like to make one comment on what we send to our people in the field.

Chairman SIMPSON. Go ahead.

Mr. SCHWAB. What we have sent to this point is that which was reflected in the Reagan administration March 10 mark of the budget. And I appreciate your concern and, believe me, we'll work with you as closely as possible, Mr. Chairman.

Chairman SIMPSON. I would agree with your statement, but it should have reflected the activities of the Veterans' Affairs Committee at their hearing, rather than the other proposal, because the changes were made.

Thank you.

Mr. SCHWAB. Yes, sir, thank you.

Chairman SIMPSON. All right. Charles Joeckel, assistant national legislative director of the DAV. Butch Joeckel, please.

I see you have Rick Heilman with you, and it's nice to see you, Rick.

Mr. HEILMAN. Yes, sir. Good morning.

Chairman SIMPSON. Please proceed, and I now have the watch here. [Laughter.]

TESTIMONY OF CHARLES E. JOECKEL, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. JOECKEL. Well, we'll do the best we can, Mr. Chairman, with the number of bills pending. I do want to reinforce what Don Schwab had to say about the Gramm-Latta proposal, and as you well know, the President supports that proposal, and there are significantly less cuts in that version than what is in the Senate version.

But, notwithstanding the fact that the cuts are less, we do want to address these proposals and cooperate where we can with the Committee on finding areas where cuts can be made without hurting program integrity.

Which brings me to S. 1059, the bill to offset disability compensation by social security benefits. I would suppose you understand, Mr. Chairman, that we are adamantly opposed to this proposal. It, in our view, fails to recognize the differing eligibility criteria between VA compensation and social security payments.

I would also like to make the point that social security benefits are essentially an insurance or pension plan, and simply because it is administered by the Federal Government, it should not be used to offset VA compensation payments no more than any other private insurance policy or IRA plan.

In addition, I would like to make the point that if a veteran is receiving code 18 benefits, the chances are highly likely that during his lifetime he didn't earn the kind of income, or make the contributions to the system that an able-bodied person would make,

and therefore, his disability payment or social security benefit would be less.

Aside from that, the idea, we do agree with the chairman that there is a difference between service-connected benefits and non-service-connected benefits. And the system is designed to make it more attractive for service-connected veterans. And administrations in the past have supported this concept.

There's nothing wrong with that. But bills to put criteria, negative criteria on the compensation program is a direct departure from the adage that compensation is special. And it should be.

S. 1060, relative to the single lump-sum payment, we do not support that provision or that bill. We would just like to make the point that a young man making a decision at 18 may find the funding very attractive, but may not recognize the long-term adverse impact.

S. 1064, a single lump-sum payment. The administration indicated that there is no cost saving, and we did not support it in our testimony. We do support or have no objection to the enactment of S. 1061, which would have a single payment to military retirees and those in receipt of compensation.

Turning for a moment to third party reimbursement, we would like to point out that the Veterans' Administration is not too sure about how much money this would save, and from our point of view, we're not too sure of how many veterans would even have insurance.

On page 14 of my statement I show a survey done by the VA some time ago, indicating income levels of veterans. And I would point out that some 68 percent of patients treated in the VA had incomes of less than $4,000. It's not likely that you're going to find much private health-care insurance in that particular category of veterans.

I would point out also that since the President is supporting Gramm-Latta, and those funding figures in Gramm-Latta are higher and restore funds for payment of bonuses, the special bonuses to physicians and dentists. And aside from that, we would adamantly oppose the enactment of S. 919.

Mr. Chairman, I would wrap-up talking about each of these individual bills in particular at this time, and refer you to the full text of my testimony. But would like to point out that given the fact that we are going to have to make cuts in VA programs and in the budget, our testimony addresses no objections to savings of some $209 to $247 million, depending on what estimate you use.

We do wish to be cooperative in trying to reach savings and improve the efficiency of the VA along with the committee and toward that end we look forward to working with you.

That concludes my oral testimony.

Chairman SIMPSON. Well, you have always been more than cooperative and of assistance to this committee. I know that from my time here as ranking minority member and now chairman, and I appreciate it.

[The prepared statement of Charles E. Joeckel, Jr., follows:]

84-082 O—81——10

PREPARED
STATEMENT OF
CHARLES E. JOECKEL, JR.
ASSISTANT NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
OF THE
UNITED STATES SENATE
MAY 6, 1981

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

It is with a great deal of apprehension that we appear here today, Mr. Chairman, to discuss several cost-savings measures proposed by the Administration and other similar proposals designed to reduce veterans' benefits and services initiated by yourself, Mr. Chairman.

First, I believe it should be made clear at the outset that we do not share your great sense of urgency to move swiftly on the measures pending before the Committee today. As you know, the final spending targets and the amounts to be reconciled as set forth in the First Concurrent Budget Resolution have not been adopted by the Congress.

In fact, there are significant differences between the House and Senate versions of the Budget Resolution--particularly regarding Function 700, Veterans' Benefits and Services. As you are aware, Mr. Chairman, the President is on record as supporting the spending targets contained in the House Bipartisan Substitute Proposal--the so-called Gramm/Latta Amendment.

This proposal sets spending for veterans' programs at $24.8 billion in Budget Authority and $24.0 billion in Outlays and contains reconciliation instructions requiring program reduction of only $110 million. In addition, the Administration has assured several House members of their support for the Gramm/Latta spending totals, should a conference occur between the House and Senate.

Similarly, spending targets for Function 700 as contained in the House Concurrent Resolution No. 115 (the House Budget Committee Resolution on the Budget) are set at levels equal to Gramm/Latta and requires only $110 million in cost-savings proposals. Further, we have recently learned that the Senate Budget Committee has, for whatever reason, increased the targets for veterans' benefits and services in Fiscal Year 1982 by $300 million both in Outlays and Authority above the President's March 10 Budget.

From our perspective, these hearings today put the "cart before the horse." We note that when added together these cost-savings measures far exceed the amount of any reconciliation instruction likely to be adopted by the Congress. We seriously question a need for such legislation before we know the total figure for which we must target such proposals.

I would further point out, Mr. Chairman, that not included as a part of this hearing is the fact that some $255.2 million will be "saved" or not spent in Fiscal Year 1982. This amount consists of the following:

	$ Savings
*An adjustment in the amount of increase provided in service-connected disability compensation and DIC benefits estimated downward from the original 12.3% to 11.2%	96.2 million
*Rejection of the previous Administration's proposal to extend the delimiting date for certain disadvantaged Vietnam Era veterans	63 million
*The Administration's measure to increase the rate of interest on VA insurance loans (a proposal which may be accomplished administratively)	96 million
Total	$255.2 million

I would also note, Mr. Chairman, that 8 of the 14 measures for which we have savings estimates, would generate between $173.9 and $211.9 million in cost-savings in 1982--depending on whose estimate you can believe. The remaining 6 bills, if passed, would easily add another $100 to $200 million to this total.

Frankly, we simply do not expect, and it is highly unlikely, that the Congress will require the two Committees on Veterans Affairs to reduce programs and spending by more than $650 million by next year. In fact, I think we can safely say, neither does the Administration.

We do not believe that these hearings represent a conserted effort by the Committee to meet a requirement to reduce federal spending or to eliminate waste, fraud or abuse in federal programs. Rather, we see it as a race to make cost-savings, no matter at whose expense--a race in which we do not wish to be a part.

Nevertheless, we feel compelled to comment on some of these ill-conceived notions in order to lay to rest any speculation regarding our views and, in an effort to show that we are not simply opposed to any measure designed to initiate savings, to provide the Committee with comments concerning some of the more practical ideas contained in the list of 14 bills.

S. 1059

Mr. Chairman, we are appalled that the Committee would give credence to a measure designed to offset disability compensation payments by the amount of Social Security benefits by holding hearings on its merits--not to mention the fact that it is initiated by the Chairman of the Veterans Affairs Committee.

Not that service-connected disability compensation benefits are "sacred cows" but the mere introduction and consideration of such a proposal makes it very difficult to dispell rumor that such a measure actually has merit. Simply stated, in our view,

the idea is ludicrous--failing to recognize the separate and distinct eligibility criteria of VA and Social Security benefits.

Social Security payments are earned benefits based upon prior wages and contributions--whether or not the benefit is provided based upon disability or old age. Simply because the system happens to be administered by the federal government, is no reason to treat Social Security benefits any differently than a private insurance policy or private pension plan.

Would you consider, for example, reducing VA compensation because a service-connected disabled veteran had a New York Life Disability Income Benefit or an IRA or Keogh Plan? Further, your proposal is designed to treat veterans with similar disabilities differently by penalizing some based upon where they may have been employed.

Aside from the obvious inequity of S. 1059, I would point out, Mr. Chairman, that the Administration is opposed to any offset of Social Security and veterans' benefits. In testimony before the House Ways and Means Committee, the Secretary of Health and Human Services commented that veterans' benefits would be expressly exempted from the Administration's so-called "megacap"--a proposal designed to limit the total amount of federal benefits an individual may receive.

Further, a similar proposal was considered in the Senate Finance Committee nearly two years ago and was rejected. One of the sponsors of an amendment to delete a provision to offset Social Security by VA compensation payments was Senator Bob Dole, now the Chairman of that Committee.

For the record, let me state that the DAV views S. 1058 as a distinct threat to the integrity of the service-connected disability compensation program and we are wholeheartedly committed to defeating its passage.

S. 1060

An equally ignoble idea, this measure proposes to permit service-connected veterans evaluated at 10 and 20% disabled to receive a single lump sum payment as an alternative to receiving monthly compensation payments.

We view this measure as a double-edged sword designed to treat a veteran with a facial scar similar to one who has the potential to become totally incapacitated.

In addition, we do not believe that the intentions of this bill are aimed at the best interests of veterans. The question is, Mr. Chairman--can an 18 or 19 year old make such an informed and responsible decision regarding, for example. the impact of a

10% rated hypertension condition? Flaunting $20, $30 or even $50,000 in the face of a young man as compared to a measly $54 a month--which do you think he would choose?--Even if he knew about strokes and heart attacks?--Even if he knew he could only come back to the VA for health care but not benefits?

Further, Mr. Chairman, why should the proposal only be limited to 10 and 20% service-connected disabled veterans? Why shouldn't I have the same option? Finally, what is an impairment worth? Obviously, no one knows, as courts across the country continue to award differing monetary benefits even under similar circumstances.

We believe at the very least the VA's Schedule for Rating Disabilities offers uniformity and is the best way to compensate veterans for their disabilities.

S. 1064

By amending Section 314 of Title 38, U. S. Code, S. 1064 intends to extend to veterans with service-connected disabilities rated at either 10 or 20%, compensation payments only on an annual basis.

The only apparent savings relative to this proposal, Mr. Chairman, would be funds associated with administrative costs.

We also note that the measure does not provide these veterans with an option as to how they wish to receive their VA compensation benefits.

Mr. Chairman, there are, in fact, instances where veterans, who are unemployed from time to time, must rely on their $54 or $99 monthly VA payment in order to subsist. Even if such is not the case, for individuals who perhaps place their checks into savings accounts, S. 1064 would deny them interest on this amount for a full year.

For these reasons, the DAV cannot support the enactment of S. 1064.

S. 1061

This measure would provide for the payment of both VA compensation (or pension) and military retirement pay in a single monthly benefit check together with a separate statement provided with each check setting forth the amount of which is attributable to each benefit.

Again, Mr. Chairman, the cost-savings associated with this proposal can only be attributed to reduced administrative costs. We have no idea of how much savings would be generated by the enactment of S. 1061 or even if the provision would work.

However, almost any proposal would be an improvement over the current practice regarding these dual benefits. Presently veterans wait for months while VA and DOD shuffle forms across the country and, just when the veteran receives the proper payments, benefits are increased and problems begin all over again. Delays by VA and DOD often result in administrative overpayments from one account or the other.

In an effort to improve the method of payment to veterans eligible for dual benefits from DOD and VA, the DAV would have no objection to the passage of S. 1061.

S. 916

This measure, through deletion of language now contained in Section 612, Title 38, U. S. Code, would amend current law so as to eliminate the extension of VA outpatient dental treatment for service-connected, noncompensable dental conditions that are unrelated to trauma or a prisoner of war experience.

Mr. Chairman, under present law, VA outpatient dental care on a "one-time" basis is furnished to any discharged veteran for a noncompensable, service-connected dental condition, if application for such treatment is received within one year of service discharge.

In essence, Mr. Chairman, we are talking about the one-time VA treatment of routine dental conditions that may be in existence at time of discharge from service. The pending bill would simply remove VA's authority to provide such dental care treatment to recently discharged veterans.

Mr. Chairman, the Disabled American Veterans, without just cause, does not support the removal of benefit entitlement to veterans. In this particular instance, we could, perhaps, not object to the pending bill if we were to be assured that the military would assume the responsibility of correcting dental conditions in existence at the time of discharge. That is to say, if the military would fill the dental cavities and/or extract unredeemable teeth before discharging people from the service. Although the Administration indicates on page 309 of its April 1981 Budget Revisions entitled Additional Details on Budget Savings, that they would require DOD to take the responsibility for treatment prior to discharge, the pending bill does not give us this assurance.

Also, we may point out that should a noncompensable, service-connected dental condition be in existence at time of discharge and go untreated, a more serious, compensable condition could develop. In such an instance, a veteran could file a claim for service-connection of such a dental condition and, conceivably, receive a favorable decision.

We ask, would the cost in terms of claims processing, adjudication, monetary and/or health care benefits awarded exceed the "savings" anticipated by the bill?

We cannot support passage of S. 916 in its present form.

S. 636

Designed as a cost-savings proposal estimated to return some $200,000 to the federal government in Fiscal Year 1982, Section 2 of this measure would amend Title 38, U. S. Code, to authorize the government of the United States to recover the cost of certain health care services provided by the Veterans Administration.

Specifically, in any case in which a veteran is furnished health care services by the VA for a nonservice-connected disability which was incurred:

1. Incident to such veteran's employment and the disability is covered under a Worker's Compensation law or plan which provides reimbursement for or indemnification of the cost of health care and services provided to the veteran by reason of the disability; or

2. As the result of a motor vehicle accident covered under the law of a state which requies the owners or operators of motor vehicles registered in such state to have in force automobile accident reparations insurance; or

3. As the result of a crime of personal violence that occurred in a state or political subdivision of a state in which a person injured as a result of such crime is entitled to receive health care and services at such state's or subdivision's expense for personal injuries suffered as the result of such crime;

the United States shall have the right to recover the reasonable cost of such care and services to the extent that such veteran, or the provider of care and services to such veteran, would be eligible to receive reimbursement or indemnification if such care and services had not been furnished by a department or agency of the United States.

Mr. Chairman, the Disabled American Veterans has not been mandated by its membership in National Convention assembled to take an official position on the pending bill.

However, we see no reason why the United States Government should not be reimbursed for the cost of care provided to veterans, when such care is extended coincident with the existence of conditions as specified in this bill. Noting that S. 636 specifically states that no veteran eligible for medical care and services under Chapter 17, Title 38, U. S. Code, may be denied such care by reason of the change in law proposed, the DAV poses no objection to its Congressional passage.

S. 1058

Similar in nature to S. 636 but not in its scope, S. 1058 proposes to grant VA authority to recover the costs of hospital, nursing home, or outpatient medical care furnished by the VA to veterans for nonservice-connected disabilities to the extent that

they have health insurance or similar contracts or rights with respect to such care or have entitlement to private medical care under Worker's Compensation or automobile accident reparation statutes of any state.

This bill is modeled after a measure (S. 759) introduced at the VA's request in the 96th Congress. We were pleased to provide our views to this Committee regarding third party reimbursement in hearings held September 19, 1979.

Based upon these hearings, during the subsequent Second Session of the 96th Congress, the House and Senate Veterans Affairs Committees agreed upon provisions which are now embodied in Public Law 96-330. As we see it, the Veterans Administration has the authority to turn away nonservice-connected veterans who otherwise, in terms of their private health care insurance, are able to defray the expense of private health care.

With respect to S. 1058, we have many concerns, but there are two which we believe are important to the subject of today's hearing. They are:

1. If the VA is implementing the provisions of P.L. 96-330, are there ample nonservice-connected veterans with private health care insurance currently receiving care in VA facilities to justify the establishment of a sophisticated billing system and, if so, would the administrative costs of the system outstrip the savings associated with third party reimbursement?

2. According to the estimates provided by the Congressional Budget Office last year, there would be no savings to the government generated by the enactment of third party reimbursement by private health insurance providers.

In addition, Mr. Chairman, VA surveys in years past indicate that about three-fourths of all VA patients do not have private health care insurance and according to a VA study covering the period from 1976 to 1978, the following data show that among all VA patients:

% of Patients	Income
38%	$2,000 or less
30	$2,000 to $4,000
18	$4,000 to $7,000
21	$7,000 to $10,000
6	more than $10,000

We seriously question whether there is sufficient insurance available among these patients which would justify the establishment of an additional VA administrative burden and wonder whether or not the enactment of this bill would generate cost-savings or create further government expenditures.

For these reasons and because we believe that the current authority set forth in Public Law 96-330, if properly implemented, is adequate, the DAV does not support the enactment of S. 1058.

S. 919

The provisions of this measure would implement an Administration proposal to limit payment of special pay authorized for eligible Veterans Administration physicians and dentists under Section 4118 of Title 38, U. S. Code.

Mr. Chairman, we believe this bill to be totally unwarranted. After five long years and much debate over the future of the VA hospital and medical care program and the quality of care provided to veterans, there is no justifiable reason to now pass legislation that would essentially negate the provisions of Public Law 96-330--which, I am sure you will recall, was overwhelmingly put into law over the objections of the President.

The DAV strongly opposes the enactment of S. 919.

S. 920

Through appropriate amendment of Section 111 of Title 38, U. S. Code, S. 920 would create essentially a $5 deductible plan for the reimbursement of travel expenses to veterans receiving health care for nonservice-connected conditions in VA facilities.

Mr. Chairman, time and again the Administration has indicated its continued support for the maintenance of the level of benefits provided to service-connected disabled veterans. S. 920,

however, proposes to reduce, in a small but important sense, the level of travel benefits provided to a group of service-connected veterans who receive care in VA facilities for nonservice-connected impairments. I refer to those veterans whose service-connected conditions are evaluated at 40% or less disabling.

In our view, no cost-savings proposal should in any way adversely impact on the benefits and services currently provided to service-connected disabled veterans. Accordingly, we oppose the enactment of S. 920 in its present form.

S. 1066

This proposal, introduced by yourself, Mr. Chairman, would amend Section 1661 of Title 38, U. S. Code to limit the educational assistance payments provided to eligible veterans whose incomes exceed $20,000 a year (or $40,000 if the veteran filed a joint federal tax return) subsequent to the five year period immediately following discharge from military service.

Mr. Chairman, a number of members of this Committee, as well as a significant number of members of the entire Congress, strongly support the enactment of a new "GI Bill" to bolster and preserve the integrity of the All-Volunteer Military Force.

84-082 O—81——11

As a matter of fact, tomorrow the House Veterans Affairs Subcommittee on Education, Training and Employment intends to mark-up legislation specifically designed to enhance the recruitment and retention efforts of the All-Volunteer Force. Obviously, the provisions of S. 1066 would defeat the purpose of this legislation.

Additionally, we believe this proposal would act as a disincentive for veterans to better their employment opportunities (through educational achievement) which, over the long run, could reduce the amount of revenue available to the federal government. We believe the record is quite clear as history has shown that in terms of a return on federal tax dollars, GI Bill educational assistance benefits have far exceeded the government's initial investment in veterans.

Finally, Mr. Chairman, never in the history of our educational assistance programs for veterans has there been a means test applied to the receipt of these benefits--penalizing some veterans for having achieved a small level of success. Quite frankly, we are appalled that such a proposal to deny benefits to former military personnel would even be considered by the Committee--particularly, in view of the problems associated with the recruitment and retention of personnel for the All-Volunteer Force.

For these reasons, the DAV stands firmly opposed to the provisions of S. 1066.

* * *

Mr. Chairman, realizing that some spending restraints will be placed upon the Committee by the provisions likely to be adopted as a part of the First Concurrent Resolution on the Budget--and, as we have indicated on several occasions that our organization stands ready to achieve some "belt-tightening" with respect to VA expenditures so long as any such proposal does not impact adversely on the integrity of the VA and its programs--the DAV has no objections to the enactment of the proposals as set forth in S. 918, S. 1062, S. 1063 or S. 1065.

This concludes my statement and I wish to again indicate, Mr. Chairman, our sincere desire to work with you and the members of your staff to refine and improve the benefits and services provided to veterans, their dependents and survivors.

* * *

Chairman SIMPSON. I guess just one question. Because it relates to the testimony as offered by you and by Mr. Schwab of VFW too, on this subject of the needs test, which is proposed initially in this area of burial benefits under S. 1062, and in the area of possible benefits under S. 1066.

Those are not popular measures to discuss. I'm fully aware of that. And yet, I, in all of my legislative duties, try to put the stuff up on the table, and then deal with it instead of leaving it down below where it so often stays.

I'd like to just say that eligibility and need, those issues are going to be addressed by this committee in the future in a series of important hearings about where we are with regard to, especially, the original mission of the VA, which was to take care of those who paid the supreme sacrifice, those who fought the wars, those who were service-connected disabled, and their widows and their orphans. That was the mission.

From that we have expanded it into other veterans, many of whom have served less than 6 months, have never left the continental United States, have never been involved in any thing on either side of a piece of armament, and we're going to pursue that.

We're going to look at those eligibility questions. The needs issue is a little tougher, you know, but certainly, it should be observed and we're going to pursue it. And your testimony will be very important in it as we do pursue it.

But where would we be if we relaxed any needs test criterion say from $20,000 a year to $30,000 or $40,000, or wherever it might go. Is there any point in your mind at which we could say that a veteran is adequately fixed in his own personal finances that the Veterans' Administration really should not be involved in the business of subsidizing either further education or burial expenses or other benefits?

Or, are we just saying that the needs test and the use of it is just simply opposed from top to bottom and right to left?

Mr. JOECKEL. Mr. Chairman, I would like to make the point that we are not objecting to the needs test placed on the burial benefits. I wouldn't say we support the idea, but we certainly understand that the committee has to find savings somewhere to meet whatever the final reconciliation instructions will be.

We're not objecting to that as far as burial.

But in terms of the education benefits, I think we're in a little bit of a different ballgame. Because we are also faced with the fact that our military, All-Volunteer Force, is not all that attractive, and has attracted persons to it only those who are in the lesser income brackets and lesser quality of soldier.

And therefore, many in Congress feel that we ought to bring back a GI bill and make military service attractive. When you place on that concept a needs test, I think you've defeated the purpose of any GI bill legislation. I really do.

Chairman SIMPSON. I can hear that, very clearly.

Especially with regard to the Volunteer Army, you are absolutely correct. And that's why it requires further investigation. I often hear the issue presented that these people joined the service for the benefits involved.

Now that may be true in some cases, but I don't think it's true with regard to World War I and World War II, and Korea and Vietnam. I don't remember anything about a review of the benefits I was to receive when I went to the service.

They did not give me a list. They just sent me.

Mr. JOECKEL. We didn't get a list when we got out.

Chairman SIMPSON. I didn't see a list. So I often wonder about that, you know, when we're talking about insurance or something, we say that was the commitment America made to that veteran. And I don't remember that in my package at all.

So, enough. We'll be busy. And I thank you very much.

Mr. JOECKEL. Thank you, Mr. Chairman.

Mr. HEILMAN. Could I make one statement?

Chairman SIMPSON. Yes, Rick.

Mr. HEILMAN. Butch has pointed out, but I just want to underscore the facts that are coming in today, here today as a veteran's organization, and contrary to stereotypes that people might have, certainly people who are not active in the veterans community.

We are, in fact, if not enthusiastically supporting, we are not objecting to passage of six of the bills that you have enumerated here today. We work closely on the House side and with your committee in attempting to identify budget cuts that everyone agrees are necessary, simply because the pressure is on virtually every Federal department and agency with the possible exception of Defense, to tighten its belt, and we have done that.

But what I do wish to say is, we object vehemently to damage the program integrity in the area of service-connected benefits and the compensation programs simply because of budgetary pressures. In our view, one should not identify a dollar figure and then look at the program and try to accomplish some angle to meet that dollar figure.

There are ripple effects that occur far beyond the simple reduction in benefits that we think we're dealing with and I think Dorothy Starbuck pointed some of those things out. Also, there are some proposals here where we think when we talk about cost savings we're really sort of dealing in mirrors.

Third party reimbursement, is there really a cost savings involved, if all of these people or the majority of them are indigent and don't have private medical coverage, that type of thing. And I would hope the committee would seriously not look at a VA estimate or a CBO estimate and not look beyond it. I don't think you will, but I do want to underscore that point.

Chairman SIMPSON. Well, you very, very appropriately stated it. Your organization has always proven to me to be very responsible and very realistic, and I have appreciated that. Thank you very much.

The next two now, please, if you might come to the hearing table together, Dr. Paul W. Schafer, president of the National Association of VA Physicians, and Dr. Thomas Bowles, Association of American Medical Colleges, please.

You will present your testimony separately, but we'll come to the questioning of both of you as if you were a panel.

Yes, Dr. Schafer, you may proceed and then we'll come to Dr. Bowles. Thank you.

TESTIMONY OF DR. PAUL W. SCHAFER, PRESIDENT, NATIONAL ASSOCIATION OF VETERANS' ADMINISTRATION PHYSICIANS

Dr. SCHAFER. Thank you, Mr. Chairman and members of the committee. My name is Paul W. Schafer, I'm a physician, a surgeon, a scientist, and I speak here today in a strictly unofficial capacity as president of the National Association of VA Physicians, NAVAP for short.

Chairman SIMPSON. We have to have something for short with all the things around here, I'll tell you.

Dr. SCHAFER. I thank you for this opportunity to express our members grave concern about the revised Veterans' Administration budget. In the interest of time, my background, that of the association for which I speak and our more generic references in regard to the proposed budget are included in my prepared testimony, which I understand will be part of the record.

Chairman SIMPSON. It is without objection.

Dr. SCHAFER. I now will address solely the issue proposed in S. 919. It is common knowledge, documented by many analytical studies, that the agency has long been plagued by problems of recruitment and retention of first-class physicians. It has chronically lagged behind the uniformed services in providing compensation of even minimal adquacy.

Public Law 94-123, the Veterans' Administration Physician and Dentist Pay Comparability Act of 1975, provided variable special pay not to exceed $13,500. It became law October 22, 1975. Though well short of parity with the uniformed services and far from comparability with the private sector, it did for about 2 years reverse the downhill slide that had been occurring in VA health care professional staffing.

However, with annual inflation rates reaching double digit levels by the late 1970's, most VA physicians held at the executive scale level (V), had by last year experienced a real annual income cut of about 50 percent below their 1975 level.

Thus insured the substantial legislative undertaking which developed the mountainous evidence that you know led to passage of Public Law 96-330, Veterans' Administration Health Care Amendments of 1980.

The documented need for this legislation was so compelling that its enactment occurred by override of the former President's veto. This occurred on August 26 of last year. You will recall the vote of 401 to 5 in the House. Any by the historic proportion of 85 to 0 in this body.

Benefits from this new law began on January 11 of this year, with the result that VA physicians to date have received 8 biweekly salary checks, reflecting increases that are modest indeed. My earnings and leave statements for two pay periods reflecting this increase for an ordinary VA staff physician were published in the January NAVAP newsletter.

The increase amounts to 9.3 percent. In our March newsletter we published the maximum increase possible, namely that for a chief of service. It amounts to 12.4 percent. But even these small increases have had already detectable benefit for the system.

I personally know three experienced service chiefs at our medical center here in Washington who decided to remain in the service

because of the new law. At least a dozen of our younger staff physicians have come to the same conclusion. Many hundreds of VA physicians across the country have been similarly motivated.

To implement the original proposals of this administration, OMB Director David Stockman instructed the General Counsel of the Veterans' Administration to prepare legislation placing a 12-percent cap on our special pay. This is a transparent device to allow more than 10,000 contracts to be broken.

S. 919 and its counterpart H.R. 2846 were drafted by an acting counsel on these orders from OMB. And they were transmitted to the Congress by letter from an acting VA administrator, and as you know, were introduced on March 25.

Mr. Chairman and members of the committee, if there is to be a VA health-care delivery system, the cap placed on the pay of VA physicians and that of other health professionals, must remain the one currently provided for in law. Not the arbitrary 12 percent of base pay proposed in the administration's budget.

That proposal and these two OMB mandated bills are nothing less than a breach of faith. If enacted, they would be regarded as nothing less than a breach of contract. Until the threat of these bills is removed, I think is unseemly, indeed, for anyone to represent that the administration's budget proposal will have no impact on direct health-care personnel.

Chairman SIMPSON. Doctor, I must, as I have done and will do with every witness this morning, I have given you now 6 minutes, I would very much appreciate your just leaving your testimony. I'm sorry about it, or else you're going to have a hearing without a Senator, and that's not a very good one.

Dr. SCHAFER. OK. One sentence. As you must know, the fact is, if these bills were to be made law, able VA physicians would leave the system in droves, and no promising young physician in his or her right mind would be attracted to such a second-class system as would result.

Chairman SIMPSON. Thank you for a very powerful statement.

[The prepared statement of Dr. Paul W. Schafer follows:]

PREPARED STATEMENT OF DR. PAUL W. SCHAFER, PRESIDENT, NATIONAL ASSOCIATION OF VETERANS' ADMINISTRATION PHYSICIANS (NAVAP)

Mr. Chairman and Members of the Committee:

My name is Paul W. Schafer and I appear before you as President of the National Association of Veterans' Administration Physicians (NAVAP). I thank you for this opportunity to express our members' grave concern about the revised Veterans' Administration Budget. If its authors' intention is to destroy the Veteran's Medical Program, if not the Agency itself, they are right on target.

I am a physician, a surgeon and a scientist. I speak here today in a strictly unofficial capacity as President of NAVAP. I am a product of the Surgical Residency Program of the University of Chicago, where after a brief stint on that faculty, I left to become Professor and Chairman of the Department of Surgery at the University of Kansas School of Medicine in Kansas City. There I was actively involved in our affiliation with 5 hospitals of the VA System; namely, in Leavenworth, Wichita, Excelsior Springs, Topeka and Kansas City. I later served as Chief of Thoracic and Cardiovascular Surgery at the Walter Reed Army Medical Center and there trained a generation of Army Surgeons who served with distinction in Korea and Viet Nam. I now continue my service in the federal public sector as Chief of Thoracic Surgery and Chief of Electron Microscopy here in Washington, D.C. My current academic identification is as Professor of Surgery at Georgetown University.

The National Association of VA Physicians (NAVAP) is the largest single professional organization representing the more than 10,000 full and part-time salaried physicians employed by the Veterans' Administration to care for the needs of sick and injured veterans. We serve in 172 hospitals and medical centers, in an even larger number of ambulatory care facilities and in other health activities. Though ours is a young organization, many of our members have long service in and much knowledge of the VA Health Care Delivery System.

We believe that, whatever be their motivation, there are those that would like to destroy the Veterans' Medical Program. They strike over and over again each time an opportunity presents. Year before last we found their handiwork in the National Academy of Sciences Report. I wrote one of its authors, Sociology Professor Paul Starr, and received a mini-lecture from Harvard University. He wrote: "I personally believe that the VA ultimately must be integrated into a system of community hospitals. As you may know, the National Academy of Sciences had a committee (of which I was a member) which laid out detailed recommendations as to how such an integration would take place. I hope that you and the members of your Association read that Report with an open mind and take seriously the long-run consequences of social welfare and cost that it addresses."

Were we to follow such advices, thus would the Nation default on its contract with its deserving veterans - they would then have lost their dedicated, free-standing hospital system.

Last summer the American Medical Association in its annual convention accepted for study and report its infamous Resolution 111. Very simply put it recommends that the Veterans' Medical Program be done away with. Close down VA Hospitals and Clinics and allow private physicians to take care of veterans' problems in their private offices, clinics and hospitals with the federal government paying all of the bills. Impetus for the Resolution comes from those communities which have rushed headlong into over-construction of hospitals. Managers of such overbedded facilities would love to be bailed out of their predicament by the diversion of veteran patients to their wasteful and costly enterprises. Similarly some private physicians in such areas would like to get in on the same act with the federal government paying their billings to veteran patients. It is possibly not accidental that such momentum as this movement has garnered would coincide with the serious threat to the VA Health Care Delivery System which now comes from within the federal public sector.

This is the certain way to insure that veterans and their health needs would become the last of the least.

This year we have the rise to fame of the Heritage Foundation and its two best selling tomes, "Mandate for Leadership" and "Agenda for Progress". The Veterans' Administration did not rate mention in the former and out of a total of 1,468 published pages "Agenda" dispatched the Veterans' Medical Program in only a scant 5 pages. Please listen carefully to this direct quotation: "For those veterans whose conditions are not related to military service there seems no reason to treat their cases any differently from civilians whose circumstances are similar. The federal Medicare Program currently provides generous medical benefits for the elderly, and the Medicaid Program provides similar coverage for the indigent. Veterans with non-service connected medical needs who are not covered by either of these programs should look to their own resources for this care just as do the great majority of fellow Americans. It is recommended that the present VA Health Care System be dismantled. VA Hospitals and other facilities should be turned over to local governments or private groups where their continued operation is economically viable."

Tell that to those who trod Omaha Beach -- to those who faced TET in Southeast Asia jungles. Why not accuse sick and injured veterans of being "free-loaders"? There would go dishonor of the Nation's contract with its veterans.

That's what this budget revision is really all about.

We all watched and heard President Reagan deliver the first part of his budget message to a Joint Session of the Congress on the night of February 18, 1981. We heard him describe his social safety net program which included the Nation's obligations to its veterans. We heard of the need to bolster the Nations defense by the expenditure of $32.6 billion more than that proposed by the outgoing Administration. And we were encouraged in the belief that veterans' entitlements were perceived to be part of our National Security endeavor. The Veterans' Administration budget was to be first unveiled on March 10 as the remainder of the budget message was to be presented to the Congress.

As the passing days lengthened into weeks and as the weeks passed by one by one, to everyone's amazement no advice was sought, no confidence was taken, no help asked, no opportunity for input was afforded -- not to the Agency itself -- not to the Committees of the Congress -- not to the leadership of the Veterans' Organizations -- not to any of us.

The only subterfuge offered as an excuse for such unseemly performance was the absence of a new VA Administrator to be in position. Though all this time at least six candidates have been openly touted for the position, the former Administrator's resignation of last November has finally been accepted, his deputy acts until such time as his successor is named and this now appears to have occurred.

With the stage thus set at 3:00 PM on Monday, March 2, without prior consultation, the budget arrived at Central Office with the incredulous order that it be returned to the Office of Management and Budget two hours later at 5:00 PM. Its return was actually delayed until 7:00 PM as several notes of appeal were prepared. All were summarily rejected. All persons privy to these events were placed under conditions of strictest confidence and all information pertaining thereto was embargoed until the Congressional unveiling on March 10. Then the leaks began to all who would listen. And thus the sad, sorry story came out.

It was evident that the ever-present hostile forces of darkness, under the protective mantle of the promising "New Beginning" of the Reagan Administration, were again on the attack. They want nothing less than to deliver a mortal blow to the VA Health Care Delivery System.

Despite protestations to the contrary from both the Office of Management and Budget and from the White House, it is becoming increasingly clear to Veterans' Administration physicians and to the leadership of all of the Veterans' Organizations that this Administration is on a track which will lead to the dissolution of the Veterans' Medical Program.

Our concern has been deepened by an OMB memorandum sent to the President on March 5, in which one finds the following: "THE EXISTENCE OF EXCESS MEDICAL CARE CAPACITY IN MANY AREAS OF THE UNITED STATES MAKES QUESTIONABLE THE NEED FOR A SEPARATE VA MEDICAL SYSTEM. THIS ADMINISTRATION WILL CONDUCT A COMPLETE REVIEW OF ALTERNATIVE METHODS OF PROVIDING READILY AVAILABLE QUALITY MEDICAL CARE FOR ELIGIBLE VETERANS. THE CONTINUATION OF CURRENTLY PLANNED CONSTRUCTION IN OVERBEDDED AREAS MAY ADD TO THE EXCESS AND PROVE TO BE A WASTEFUL FEDERAL EXPENDITURE."

Essentially the same message can be found in the Rescissions and Deferral Message to the Congress. On page 150 the following Justification and Effect attends the proposed cancellation of construction plans for VA Hospitals in Baltimore, Maryland and Camden, New Jersey: "THIS RESCISSION CAUSES THE CANCELLATION OF CONSTRUCTION PLANS FOR VA HOSPITALS IN BALTIMORE, MARYLAND AND CAMDEN, NEW JERSEY. THESE TWO AREAS ARE HEAVILY OVERBEDDED AND WELL-SERVED BY COMMUNITY AND PRIVATE HOSPITALS. THESE TWO PROPOSED VA HOSPITALS WILL NOT BE BUILT. HOWEVER, ADEQUATE HEALTH FOR ELIGIBLE VETERANS WILL CONTINUE TO BE AVAILABLE."

Shades of the Heritage Foundation's "Agenda for Progress", sweet music to the private sector interests represented by the American Medical Association's "Resolution 111", and dishonor of the Nation's contract with its veterans. That's what this VA Budget revision is all about.

It is our belief and sincere hope that President Reagan does not know that he is being used for this purpose. All of us recognize the need for fiscal belt-tightening. Many National indicators show that the public expects fiscal restraints. Inflation is no friend to any of us. That part of the Nation's contract which concerns veterans health care, though very special, should not be considered as absolutely inviolable. The question of good faith and equity lies at the heart of the matter. A cut of nearly a billion dollars in a total VA budget of 24 billion might approach an equitable distribution across the entire federal spectrum; however, two-thirds of that 24 billion are in as yet untouched compensations, pensions and similar benefits. The axe thus strikes unmercifully and inequitably on the less than 7 billion dollar Veterans' Medical Program. Can a GSA auction to the highest private sector bidders be far away?

How ironic it is, at a time when young men and women are being asked to serve their country's increased Defense effort, that veterans who have served their country are being recruited for tomorrow's charity wards. We would do well to remember the shameful treatment of our own veterans after World War I when they came to Washington to petition the government for their rights. Who will care for the 15 million World War II veterans who now approach the time of their great health catastrophies? What of the unmet needs of our Viet Nam veterans?

Mr. Chairman, I do think that, at a time when you are spending $28 billion in additional outlays for defense of which 6.8 billion are for military construction, it would be terribly contradictory for Congress to be reducing veterans' benefits because as far as I am concerned the highest priority should be to the personnel who fight in defense of their country even before the purchase of sophisticated hardware.

As a physician with the Veterans' Administration for the last 17 years, in my view, there is no greater benefit to America's veteran either service connected or non-service connected, than to assure him complete quality medical care. Given the situation that exists now in most VA hospitals; given the situation that we can't now even care for the number of veterans who are eligible for outpatient treatment; given the fact that we are already, because of lack of resources, and lack of resources and personnel in some areas, certainly the lack of nurses (we have had to close 350 beds); in my view it would be totally irresponsible on the part of Congress or the President to recommend any reductions whatsoever in personnel or funds for the VA Hospital System.

In the OMB memorandum which I mentioned, though the Administration may deny it - it's there. The fear is there among veterans that they are giving consideration to closing their hospital facilities. Any reduction on the part of Congress, will lend some credibility toward that; especially in view of the personnel reductions that have taken place since FY79 during the previous Administration.

At the same time I do not want to suggest to you that the Medical System is the only System that is sacred. Of course the Department of Veterans' Benefits System is an integral part of this, in that you need to maintain an adequate number of personnel in the regional offices to make sure that the veteran's claim, when he comes in, is processed on a timely basis, and that he is not required to wait 6 weeks for an examination for compensation or pension purposes; or, that it doesn't take 6 months in order to get a decision by a Rating Board. Again I would urge that the people not be reduced in these regional offices.

The question is, that if there are to be savings, where do they come from?

In my view, if there are to be reductions in the veterans budget - and I don't think that there should be - it must be from the benefits section and therefore my recommendations would be along these lines.

Assuming the Reagan Administration's economic assumptions are correct, then one could not argue that the cost-of-living increase should be 11.2% instead of 12.3%; therefore there would be a savings of $104 million from that proposed in the Carter budget. But I would hasten to make certain that you understand that my approval of this be based on the correctness of the economic assumptions made by the Reagan Administration, because we can ill-afford not to provide for whatever cost-of-living adjustment is actually determined to be necessary in order to make certain that service-connected veterans' income is not erroded by inflation.

An additional $11 million reduction would be achieved if you were to decrease the pension benefit on the same basis.

$23 million could be saved in Budget Authority if you eliminated flight training benefits.

$9 million could be saved in Budget Authority if you terminated correspondence school funding.

Under the circumstances that prevail at this time I could not argue against a $96 million reduction in interest subsidies on veterans' insurance policy loans.

In my view there is no reason that we should be providing dental care for people twelve months after their date of discharge from one of the Services. This benefit is clearly the responsibility of the Department of Defense. Thus one could save $32 million by eliminating this presumptive service-connection for Class II dental treatment.

The only aspect of the Medical Program that you might wish to consider would be that, if the economic assumptions of the Reagan Administration are correct, then possibly upwards of $40 million could be saved, in that the rate of inflation will not be as high as Carter predicted in his budget.

As one looks at the $744 million proposed cuts of the Reagan Adminstration one can only conclude that this figure was reached in a most arbitrary fashion with essentially no consultation with knowledgeable references. I am certain that the Veterans' Administration does not know what the impact of such reductions would actually be and; indeed, they have not even yet had time to analyze it.

It is my respectful suggestion that you would accept something in the order of not to exceed $330 million in reductions, essentially along these lines which I have suggested to you.

This would be in line with the $400 million restoration recommended by your counter-part Committee in the House. The House Budget Committee voted 31 to 3 to support these values in approving the amendment proposed by Representative Bill Hefner on April 9. This undoubtedly had significant influence on the inclusion of this same restoration in the "Bi-partisan" Gramm-Latta substitute proposal Though Gramm-Latta reflects the same total dollar values it details have yet to be revealed.

One week ago last night we all saw President Reagan's historic address to a most responsive Joint Session of the Congress during which he announced that he embraces and supports the Gramm-Latta substitute. More specifically it has now been announced that the President fully supports the $400 million funding levels for veterans contained in the Gramm-Latta Amendment. This new position was reported to have been the result of a full days' review by OMB whose director now confirms that the Administration will not oppose any Congressional efforts to restore personnel cuts in the VA's Department of Medicine and Surgery and that they have changed their position on centralization of the VA's regional offices.

And now Mr. Chairman, forgive my very special plea for physicians employed by the Veterans' Administration. It is common knowledge documented by many analytical studies that the Agency has long been plagued by problems of recruitment and retention of first-class physicians. It has chronically lagged behind the Uniformed Services in providing compensation of even minimal adequacy. Public Law 94-123, the Veterans' Administration's Physician and Dentist Pay Comparability Act of 1975, providing variable special pay not to exceed $13,500, became law on October 22, 1975. Though well short of parity with the Uniformed Services physician bonus and far from comparability with the private sector, it did for about two years reverse the downhill slide that had been occurring in VA Health Care Professional staffing.

However, with annual inflation rates reaching double digit levels by the late 70's, most VA physicians held at the Executive Scale's Level V, had by last year experienced a real annual income cut of about 50% below their 1975 level. Thus ensued the substantial legislative undertaking which developed the mountainous evidence that you know led to the passage of PL 96-330, Veterans' Administration Health Care Amendments of 1980. The documented need for this legislation was so compelling that its enactment occurred by override of the former President's veto on August 26th of last year. You will recall the vote of 401 to 5 in the House and by the historic proportion of 85-0 in this body. Benefits from this new law began on January 11 of this year with the result that VA physicians have to date received seven bi-weekly salary checks reflecting increases that are modest indeed. My earnings and leave statement for the two pay periods reflecting this increase for a VA staff physician were published in the January NAVAP NEWSLETTER. The increase amounts to 9.3%. In our March NEWSLETTER we published the maximum increase possible; namely, that for a Chief of Service. It amounts to 12.4%.

But even these small increases have had an already detectable benefit for the System. I personally know three experienced Service Chiefs at our Medical Center here in Washington who decided to remain in the Service because of the new law. At least a dozen of the younger staff physicians have come to the same conclusion. Many hundreds of VA physicians across the country have been similarly motivated.

To implement the original proposals of the Administration, OMB Director David Stockman instructed the General Counsel of the Veterans' Administration to prepare legislation placing a 12% cap on our special pay - a transparent device to allow more than 10,000 contracts to be broken. HR 2846 was drafted by the Acting General Counsel of the Veterans' Administration on orders from the Office of Management and Budget. It was transmitted to the Chairman of the House Committee on Veterans' Affairs by letter from the Acting VA Administrator. Chairman G. V. (Sonny) Montgomery, as is customary under such circumstances, introduced the bill by such request on March 25. As you must know, the fact is that were HR 2846 to be made law, able VA physicians would leave the System in droves and no promising young physician in his or her right mind would be attracted to such a second class operation as would result.

Mr. Chairman, Members of the Committee, there you would have lost the Veterans' Medical Program. Douht you not that there are those who have precisely that intention. Do not let it happen.

I thank you.

Chairman SIMPSON. A couple of questions.

Before the present level of physicians' bonuses was enacted in Public Law 96-330, VA-physician vacancies were quite low, ranging between 1.4 and 3.9 percent of total physicians.

I know you say that there is every valid reason to believe that that would be a higher vacancy rate, you talk about wholesale desertion and I believe your phrase was "leave in droves." But, are we able to prove that?

Dr. SCHAFER. Well, when you asked that question of the representative of the agency I think his answer is the only one that I could give you. An insufficiency of time has transpired for there to be a strictly analytical study. But I can assure you in respect to the many, many physicians with whom I've talked across the country, that the representations I made will be supported when such figures can be generated.

Chairman SIMPSON. Well, let me come back to Dr. Bowles and hear his testimony, and then I have a couple of questions.

TESTIMONY OF DR. L. THOMPSON BOWLES, AMERICAN MEDICAL COLLEGES

Dr. BOWLES. Mr. Chairman, I am Tom Bowles and I'm professor of surgery and dean for academic affairs at the George Washington University Medical Center. I'm making a brief statement on behalf of the Association of American Medical Colleges concerning S. 919.

For nearly four decades, there has been a highly productive relationship between the country's medical schools and VA hospitals. Affiliation agreements encompassing patient care, medical education, and research are now in force at 102 medical schools and 141 of the existing 182 VA hospitals. These arrangements have proven enormously beneficial to our Nation's ill and disabled veterans.

Resources for veterans' health care have been losing ground to inflation and deteriorating in comparison to civilian care since 1977. These destructive trends will continue unless this committee acts to forestall the serious retrenchments in VA medical services advocated by the administration.

Both bodies of Congress, 8 months ago, passed by very wide margins, legislation designed to revise and make permanent the VA's authority to enter into special pay agreements with physicians and other health professionals employed by the Department of Medicine and Surgery. This legislation was the result of thoughtful compromise and painstaking efforts by this committee. When President Carter vetoed the bill, both Chambers rejected his decision overwhelmingly. Despite these recent events, the administration is requesting that the bonuses authorized in Public Law 96-330 be substantially reduced through the enactment of S. 919.

Recognizing the new economic climate of the country and the Congress, the association nevertheless regards this reversal as shortsighted and counterproductive. From the viewpoint of all par-

ties concerned, S. 919 subverts the law's stated intent that the levels of pay for VA physicians be reasonably comparable with the compensation of other physicians employed by the Federal Government and by the private sector.

In 1946, the Congress created a dedicated personnel system for health professionals employed by the Veterans' Administration, explicitly recognizing that the regular civil service system was not suitable for meeting the medical needs of our former servicemen. Special inducements have been necessary to recruit and retain the physicians needed by the VA, the Armed Forces and the Public Health Service.

In 1975, the Congress decided to modernize the VA system through enactment of Public Law 94-123, which represented an effort to achieve pay comparability with the salaries paid to other Federal physicians. The usefulness of Public Law 94-123 was quickly apparent by the immediate improvement of the VA's recruitment and retention rates. However, as important as this modernization was in 1975, it was neither sufficient nor longlasting. Between March 31, 1979, and December 31, 1980, vacancies within the Department of Medicine and Surgery for both full- and part-time physicians increased from 93 to 361 physicians. Until the passage of Public Law 96-330 in the 96th Congress, there had been no adjustment in special pay since the program's original authorization 6 years ago, while the cost of living during that period rose 45 percent.

In order to maintain the quality of patient care that should characterize the VA health delivery system, it is essential that the recruitment policies of the Department of Medicine and Surgery remain competitive.

Passage of Public Law 96-330 indicated that the Congress recognized that the private sector demand for the services of physicians remains high; and that the competent and hard-working doctors are able to earn far higher incomes outside the Federal Government. Enactment of S. 919 would compound existing recruitment and retention problems of the Department of Medicine and Surgery and undermine the Nation's commitment to provide our veterans with the best medical care.

Congress decided to grant the VA permanent special pay authority in the hope that young physicians would give serious consideration to a career in the VA. If these bonuses are reduced, particularly so soon after the overwhelming support for them, it will display an inconsistency that will discourage potential VA physicians.

Finally, it is critically important for members of this committee to carefully examine some of the pertinent facts and figures of the issue and not be misled by statements from OMB. The salaries of VA physicians are most frequently compared to those employed by the Department of Defense.

These comparisons are misleading, because the VA computations traditionally do not include house staff salaries while DOD does; thus DOD averages are speciously low. Furthermore, a larger fraction of VA physicians are board certified than are those in the DOD, and so would conventionally receive higher salaries.

Of the 11,000 physicians employed by the Department of Medicine and Surgery, 9,500 currently qualify for the bonuses author-

ized by Public Law 96-330. In contrast to the implications of statements from OMB, we understand that only 16 VA physicians now receive the maximum allowable benefits.

In closing, I wish to reiterate the AAMC's opposition to the proposed pay reduction. The association is a firm advocate of eliminating unnecessary Government spending wherever possible. However, we believe that S. 919 would only contribute to the deterioration of the VA health-care system and thereby compromise our country's commitment to our veterans.

S. 919 will damage the very productive medical school-VA affiliations. And finally, adoption of this bill would undermine the administration's stated objective of improving our Nation's defense posture. In the event of a military conflict the VA's Department of Medicine and Surgery serves as the DOD's major backup resource in medical manpower and research. Enactment of this legislation would seriously damage the VA's ability to serve in such a capacity.

Thank you for the opportunity to present these views. I will answer any questions if you wish.

Chairman SIMPSON. Thank you very much for your understanding of the time problem.

On the physicians salaries presently we find that the VA physician is the highest paid physician in the Federal Government. Let's accept for the moment that the number of board-certified VA physicians is much higher than the DOD number, I know that's true. Let's accept the fact that most VA physicians receive somewhere in the $70,000 range, and I'm not quite certain of 1 or 200 in the $77,000 range. Under this bill the Administrator is authorized to offer the full $27,500. That bonus is available to the Administrator to attract or retain any especially valuable person. Is that not some type of sufficient guarantee that the VA will always be able to offer the necessary breadth and quality of medical care?

Dr. SCHAFER. Mr. Chairman, I have to take issue with your——

Chairman SIMPSON. People have done that before, have a go at it.

Dr. SCHAFER [continuing]. Identification of numbers, it's ridiculous to say that $70,000-plus is the average income of VA physicians, that is just not borne out be the facts. I am very definitely near the average, and I can assure you I do not get any such income.

Now second, the reference that we're the highest paid physicians in the Federal service. Believe me, those numbers reflect precisely the references that Dr. Bowles' made as to the way these figures are computed. If we added in all of our house officers and then took the grand average, I can assure you the numbers, as between DOD and the VA, considering all of the other dollar-equivalent values that attend employment of a physician in DOD, would make DOD physicians by far the highest paid physicians in the Federal service.

I have, and I know we don't have time, a document here in my briefcase which is the latest recruitment device by the Air Force to attract VA physicians. I'll be glad to see that you get a copy of that. The last one I had was from the Navy. You know, it would make you want to sign up. (See p. 233 of hearing.)

So, the idea that VA physicians are the highest paid in the Federal service, I cannot accept.

Now, taking the last point that you made and to answer the question. Since the Administrator, under the passage of this new law, would be allowed to have all this great flexibility and to be able to pay as many physicians as he could identify as being qualified this maximum special pay of $27,500, the fact is, he would not have to find very many before the average pay of the remainder would be reduced to a point where it would no longer be an incentive.

Dr. BOWLES. Mr. Chairman, may I make a brief comment here?

Chairman SIMPSON. Please.

Dr. BOWLES. Your figures are impressive and persuasive, except I think for the point Dr. Schafer has just made. With the selective applicability of that bonus option, the fact is the remaining doctor corps within the Veterans' Administration would suffer and would not be comparable to their colleagues in other parts of the Federal sector and the private sector. and we think it would damage considerably the system available to the VA hospitals now.

Chairman SIMPSON. I understand that. But we'll pursue in the course of our hearings at a later time, as the time problem is known, the difference, you know, about the board-certified VA physician and that being higher than the DOD number. And the differences there, and based upon base salaries, and I think we're going to look into that.

We have an average VA base salary of which I perceive to be about $48,000, the average military base salary is $29,000. We're going to look into the benefits, $27,500, whi h is the discretionary for this greater presented amount. And I have no doubt in my mind that VA physicians could make better money on the outside. Let's all just call that a given.

Some say that's true of lawyers, but I've been a dedicated public servant too long and now I don't know any more. But, I don't know if it's really ever feasible to really match outside income. We're always told in Washington, D.C., that we can't attract people to Government because they can't make what they make in private industry, and yet I see people standing in line for the jobs, 4,000 available and we're processing 200,000 applications in this administration.

I guess there are people who determine that they want to serve in the public interest. I made more money in the law business than I make here, but somewhere along the line there are the rewards, the nonmonetary rewards of public service.

And I know that that's a hideous thing to address, but there are also the monetary rewards of public service when you work for the Federal Government that are much more than those in the private sector. Pensions of civil service, health care, there are many things and we're going to pursue them, and I appreciate your strong views, very understandable. Thank you.

Dr. SCHAFER. Thank you.

Chairman SIMPSON. Thank you very much.

Dr. BOWLES. Thank you, sir.

Chairman SIMPSON. I think, Mr. Coy, since you're still here, you might provide us for the record the average gross salary of all full-

time physicians employed by the VA. Could you furnish that for us? Maybe you have that, you have it now? If not, you can simply present it.

Mr. COY. We have that for the record, Mr. Chairman. The average base pay for a full-time physician is $49,166. The average special pay for full-time physician is $17,210. The average total pay for full-time physician is $66,376.

Chairman SIMPSON. Tell that fellow to come back in here.

Yes, Dr. Schafer, did you hear that?

Dr. SCHAFER. Yes, Mr. Chairman; I hope you did.

Chairman SIMPSON. I did; $67,000.

Dr. SCHAFER. Because earlier testmony suggested it was in the $70,000's.

Chairman SIMPSON. I said $70,000. We're talking about $67,000.

Dr. SCHAFER. Maybe $3,000 doesn't mean much to you.

Chairman SIMPSON. Well, it does. But it's not quite ridiculous. Thank you.

So, we'll argue about the $3,000 difference between odes of Simpson and the ideas of Schafer and see where that goes at some other future time. Now, we have John Thompson, of the National Home Study Council. We appreciate your testimony, sir.

TESTIMONY OF JOHN F. THOMPSON, PRESIDENT, McGRAW-HILL CONTINUING EDUCATION CENTER, ON BEHALF OF THE NATIONAL HOME STUDY COUNCIL

Mr. THOMPSON. Thank you, Mr. Chairman. I am John F. Thompson, president of the McGraw-Hill Continuing Education Center and its subsidiary, the National Radio Institute, which is the largest technical correspondence school in the country today with over 50,000 students.

I am past president of the National Home Study Council and currently vice chairman of its accrediting commission, which is a commission recognized by the Department of Education as an official accrediting body. This is my 25th year as a correspondence school educator.

I prepared a written statement which I would like to have included in the record today. I also prepared an oral statement, which in the interest of time, I would like to deviate from and respect the 5-minute rule. I understand we are pressed for time.

I would like to, first of all, address the comments of the Veterans' Administration, specifically Ms. Starbuck, this morning. I'm pleased to have the opportunity to do that, as many of these comments and statements we were not familiar with.

First of all, correspondence courses don't meet objectives, only 34 percent who complete had full-time jobs and the overall completion rate less than 50 percent. Let's look at the 34 percent who had full-time jobs. Under policy and procedure and rules set forth by the VA, in order to remain an eligible school we must be able to demonstrate that a minimum of 50 percent must be placed in the field for which they were trained.

Now that includes part time and it includes full time, and our own figures range from 57 to 83 percent of individuals employed in the field for which trained. We never understood that the purpose of the GI bill was full-time employment, and perhaps that's the

reason why the VA accepts both full-time as well as part-time employment.

As far as completion rates are concerned, we wonder what the comparison is with on that score. In the new book, "The Crisis of the Community College," for instance, fewer than 25 percent of students in 2-year colleges ever graduate. Fewer than 12 percent in community colleges will ever see 4 years of higher education, fewer than 5 percent will ever make over $20,000 a year.

The major issue here and the one that I would like to, as I summarize my original summary, the major issue is while we totally endorse the concepts of President Reagan's proposed budget cuts, we do not believe that the elimination of correspondence schools will serve this purpose, and in fact, will cost the Veterans' Administration and the Federal Government considerably more money.

It's been proven time and again that the cost of resident school, colleges, universities, resident vocational schools, is three to four times that of correspondence education. And if only 60 percent of the 28,000 veterans and servicemen who are currently enrolled in correspondence schools should transfer to resident schools, the additional cost incurred by the VA could well be in excess of $30 million.

Specifically, we're dealing with $13.1 million for correspondence schools, 60 percent, should they move over to resident schools, and are reimbursed at $407 a month, which would be a married individual, we would be talking on the order of $110 million additional expenditure, or 1,181 percent.

Correspondence schools fill a vital need in the United States for homebound veterans, for handicapped, for those who can't jump in the car and drive 25, 50 or more miles to attend a resident school. One of the prime benefits of correspondence schools is veterans study at their own pace.

It's not a matter of default of loan, students do not receive a monthly stipend, they are reimbursed only as they complete lessons and strictly on a pro rata basis, and even that only up to 70 percent. The remaining 30 percent is paid out of pocket.

In fact, if more veterans and servicemen attended correspondence schools, I suspect there would be an appreciable reduction in the amount allocated for educational funding under the GI bill.

My colleague here tells me I have 1 minute to reach my 5 and I'm going to respect that fact.

My final point concerns America's commitment, and, Mr. Chairman, you raised the question of commitment versus years gone by, no commitment was given me when I served, but I did use my GI bill benefits, I used them for avocational purposes. I didn't tell the VA that, but that's neither here nor there.

Each of these 28,000 veterans have in their possession a certificate of eligibility on Veterans' Administration letterhead. It reinforces their entitlement to enroll in and pursue stated programs of education and training.

Do correspondence courses meet their need? There's a national documented survey, for example, on television and audio technicians. Over one-half of the full-time technicians in the United

States today have taken correspondence courses. Fortunately, our school was the 2 to 1 choice over any other institution.

We can show thousands and thousands of testimonial letters from graduates, people whose lives have been changed entirely by correspondence courses and have removed themselves from the rolls of what might have been otherwise a burden on society.

That concludes the summary of my summary, and I will certainly be happy to entertain any questions.

Chairman SIMPSON. Well, thank you very much.

[The prepared statement of John F. Thompson, his response to written questions submitted by Hon. Bob Kasten, the response of the National Home Council to written questions submitted by Hon. Alan Cranston, and other related materials follow:]

PREPARED STATEMENT OF JOHN F. THOMPSON, PRESIDENT, McGRAW-HILL CONTINUING EDUCATION CENTER IN BEHALF OF THE NATIONAL HOME STUDY COUNCIL

I AM JOHN F. THOMPSON, PRESIDENT OF THE McGRAW-HILL CONTINUING EDUCATION CENTER AND ITS SUBSIDIARY, THE NATIONAL RADIO INSTITUTE. I AM TODAY REPRESENTING THE NATIONAL HOME STUDY COUNCIL, OF WHICH I AM PAST PRESIDENT AND CURRENTLY VICE CHAIRMAN OF ITS ACCREDITING COMMISSION, A COMMISSION RECOGNIZED BY THE U.S. DEPARTMENT OF EDUCATION AS AN OFFICIAL ACCREDITING BODY. THIS IS MY TWENTY-FIFTH YEAR AS A CORRESPONDENCE SCHOOL EDUCATOR.

I HAVE PREPARED A WRITTEN STATEMENT TITLED "CAREER TRAINING BY THE CORRESPONDENCE SCHOOL METHOD -- WHY IT MUST BE PRESERVED IN THE G.I. BILL." IN THE INTEREST OF TIME, THIS STATEMENT WILL BE DISTRIBUTED TO YOU. I URGE YOU TO READ IT CAREFULLY AND WOULD APPRECIATE HAVING IT INCLUDED IN TODAY'S RECORD.

MY PURPOSE HERE IS TO COMMENT ON THE PROPOSED ELIMINATION OF CORRESPONDENCE SCHOOLS FROM THE G.I. BILL. I WISH TO MAKE IT CLEAR THAT WE TOTALLY ENDORSE THE CONCEPTS OF PRESIDENT REAGAN'S PLAN TO REDUCE FEDERAL EXPENDITURES AND MOVE TOWARD A BALANCED BUDGET. BUT AT THE SAME TIME, WE ARE VITALLY CONCERNED ABOUT TWO ISSUES -- (1) FICTITIOUS BUDGET CUTS THAT WILL IN ACTUALITY RESULT IN INCREASED FEDERAL EXPENDITURES, AND (2) THE QUESTION OF WHETHER OR NOT AMERICA HAS A COMMITMENT TO VETERANS AND SERVICE PERSONNEL UNDER THE G.I. BILL. TODAY, THERE ARE

OVER THREE MILLION AMERICANS PURSUING CORRESPONDENCE COURSES OFFERED BY THE MILITARY, COLLEGES, UNIVERSITIES, PRIVATE SCHOOLS, GOVERNMENT AND INDUSTRY. THE 90 SCHOOLS ACCREDITED BY THE NATIONAL HOME STUDY COUNCIL HAVE IN EXCESS OF ONE MILLION STUDENTS.

BUT RATHER THAN REHASH THE SIZE, SCOPE, AND CLEAR ACCEPTANCE OF CORRESPONDENCE EDUCATION IN AMERICA TODAY (WHICH IS INCLUDED IN WRITTEN TESTIMONY), I WILL SIMPLY SPEAK BASED ON MY OWN PERSONAL EXPERIENCES WITH A PARTICULAR SCHOOL OVER THE LAST QUARTER CENTURY.

OUR SCHOOL, THE NATIONAL RADIO INSTITUTE, WAS FOUNDED HERE IN WASHINGTON IN 1914. FROM THE DAYS OF WIRELESS RADIO, WE HAVE GROWN TO BECOME THE LARGEST TECHNICAL CORRESPONDENCE SCHOOL, OFFERING MORE THAN 30 CAREER COURSES IN FIELDS SUCH AS MICROCOMPUTER TECHNOLOGY, COMMUNICATIONS ELECTRONICS, ELECTRONICS TECHNOLOGY, TV/AUDIO SERVICING, AIR CONDITIONING/REFRIGERATION, AND BUILDING CONSTRUCTION. OUR ACTIVE STUDENT BODY NUMBERS OVER 50,000 WHICH PUTS US IN THE LEAGUE OF THE LARGEST EDUCATIONAL INSTITUTIONS TODAY. IN OUR FACILITIES HERE, WE HAVE OVER 200 FULL-TIME EMPLOYEES, INCLUDING FACULTY, STUDENT SERVICES, COURSE DEVELOPMENT ENGINEERS AND TECHNICIANS, ETC. WE HAVE EFFECTIVELY TRAINED STUDENTS FOR NEW CAREERS UNDER EVERY G.I. BILL SINCE WORLD WAR II. I ASSURE YOU THE FRIENDSHIPS, LOYALTIES, AND SUCCESS STORIES OF OUR GRADUATES OVER THE YEARS ARE AS SIGNIFICANT AS ANY IVY LEAGUE COLLEGE IN THE COUNTRY.

FOR THE UNINITIATED, THERE IS A MISCONCEPTION ABOUT CORRESPONDENCE EDUCATION TODAY. SOME LABOR UNDER THE IMPRESSION THAT SCHOOLS GENERALLY OFFER SHORT, ABBREVIATED, SINGLE SUBJECT PROGRAMS MARKETED TO THE YOUNG AND UNINITIATED. SUCH IS HARDLY THE CASE. THE TYPICAL STUDENT TODAY IS 28 TO 32 YEARS OLD, MARRIED WITH ONE OR MORE CHILDREN, A MINIMUM OF 12 YEARS OF FORMAL EDUCATION (30% HAVE TWO OR MORE YEARS OF COLLEGE), AND COMMITTED TO SELF-IMPROVEMENT THROUGH CAREER FOCUSED TRAINING. ONE EXAMPLE OF THE EFFECTIVENESS OF CORRESPONDENCE TRAINING CAN BE FOUND IN A RECENT NATIONAL SURVEY OF FULL-TIME TV/AUDIO TECHNICIANS. NEARLY ONE-HALF OF THESE PROFESSIONALS RECEIVED THEIR TRAINING BY CORRESPONDENCE AND NRI, NOT INCIDENTALLY, WAS THE TWO-TO-ONE CHOICE OVER ANY OTHER SCHOOL. THAT'S QUITE A CONTRIBUTION TO ONE SPECIFIC CAREER FIELD THROUGH CORRESPONDENCE TRAINING.

A TYPICAL CORRESPONDENCE COURSE TODAY CAN REQUIRE FROM 1,000 TO 2,000 HOURS OF CONCENTRATED STUDY AND TWO, THREE, OR MORE YEARS TO COMPLETE. DIPLOMAS ARE EARNED ONLY WITH CONSIDERABLE SELF-IMPOSED DISCIPLINE. THROUGH THE THOUSANDS OF TESTIMONIAL LETTERS WE HAVE ON FILE, IT IS CLEAR STUDENTS SIGNIFICANTLY IMPROVE THEIR LOT IN LIFE AND BECOME SUBSTANTIAL CITIZENS, NOT PART OF THE SOCIAL DILEMMAS WHICH PLAGUE OUR COUNTRY TODAY.

NOW, LET'S TURN TO THE QUESTION OF OUR SCHOOLS AND THE G.I. BILL. FIRST, IT IS WORTH NOTING THAT THE SINGLE LARGEST USER OF CORRESPONDENCE EDUCATION IN AMERICA TODAY IS THE ARMED FORCES -- ARMY, AIR FORCE, AND MARINE CORPS. THROUGH HUNDREDS OF COURSES OFFERED AT NO COST BY THESE MILITARY BRANCHES, OFFICERS AND ENLISTED MEN -- MORE THAN 800,000 AT THIS MOMENT -- ARE TRAINING FOR ADVANCEMENT. THESE MEN AND WOMEN ARE "TUNED IN" TO THE CORRESPONDENCE METHOD OF TRAINING, PERHAPS MORE SO THAN ANY OTHER SINGLE GROUP OF CITIZENS. UPON RETURN TO CIVILIAN LIFE, THEY EXPECT AND DESERVE THE RIGHT TO IMPROVE THEIR LIVES THROUGH QUALITY CORRESPONDENCE INSTRUCTION.

AND IT IS EXTREMELY UNLIKELY CORRESPONDENCE COURSES ARE PURSUED UNDER THE G.I. BILL FOR AVOCATIONAL PURPOSES. COURSES WHICH REQUIRE TWO TO THREE YEARS TO COMPLETE MAY PROVIDE SIGNIFICANT CAREER REWARDS, BUT THEY ARE HARDLY ENTERTAINING. AND, IN ORDER FOR A CORRESPONDENCE SCHOOL TO MAINTAIN VA ELIGIBLITY, IT MUST BE ABLE TO DEMONSTRATE THAT 50% OR MORE OF ITS GRADUATES ARE EMPLOYED IN THE FIELD FOR WHICH THEY WERE TRAINED. UNDER THIS STIPULATION, OUR OWN STATISTICS SHOW GRADUATE EMPLOYMENT RANGING FROM 57% TO 83%, FAR ABOVE THE MINIMUM REQUIREMENT. FURTHER, G.I. BILL STUDENTS ENROLLED WITH CORRESPONDENCE SCHOOLS ARE REIMBURSED ONLY 70% OF THE TUITION ON A PRO RATA BASIS, AS LESSONS ARE COMPLETED WITH PASSING GRADES. EFFECTIVE LAST OCTOBER 1, THE REMAINING 30% MUST BE PAID OUT OF POCKET. OUR STUDENTS ARE ALREADY PAYING THEIR DUES TOWARD A BALANCED BUDGET AND THEY DO NOT RECEIVE A MONTHLY STIPEND AS IN THE CASE OF RESIDENT SCHOOL STUDENTS.

NOW, AS A METHOD OF REDUCING FEDERAL SPENDING, THE PROPOSAL IS TO SIMPLY ELIMINATE, AS A CLASS, ALL CORRESPONDENCE SCHOOLS FROM THE G.I. BILL. ANOTHER BENEFIT -- A LOW-COST, WIDELY ACCEPTED AND EFFECTIVE METHOD OF EDUCATION WILL GO BY THE BOARD. THE 28,000 VETERANS AND SERVICE PERSONNEL CURRENTLY ENROLLED WITH NATIONAL HOME STUDY COUNCIL SCHOOLS WILL BE FORCED TO DISCONTINUE THEIR CAREER TRAINING IN MIDSTREAM WITH NO OPPORTUNITY TO EARN THEIR SCHOOL'S DIPLOMA, UNDER THE G.I. BILL.

I CANNOT HELP BUT WONDER HOW MANY OF THOSE, WITH RESPONSIBILITY TOWARD OUR FEDERAL BUDGET, HAVE EXPLORED AND UNDERSTAND THE CONSEQUENCES OF THIS ACTION. I SUBMIT THAT:

A. THERE WILL BE NO SAVINGS WHATSOEVER TO THE VETERANS ADMINISTRATION OR THE FEDERAL GOVERNMENT, THROUGH THIS ACTION. IT HAS BEEN CLEARLY DEMONSTRATED BY THE NATIONAL CENTER FOR EDUCATION STATISTICS THAT RESIDENT SCHOOL PROGRAMS COST FAR MORE THAN THOSE IN CORRESPONDENCE SCHOOLS -- TWO TO THREE TIMES AS MUCH. A SUBSTANTIAL NUMBER OF THESE 28,000 VETERANS AND SERVICE PERSONNEL WILL BE FORCED TO ATTEND RESIDENT SCHOOLS IF THEY ARE TO USE THEIR G.I. BILL EDUCATIONAL BENEFITS. BY ANY CALCULATION, THE COSTS ARE BOUND TO BE GREATER.

B. MANY STUDENTS MUST DISCONTINUE THEIR TRAINING WITH NO OTHER EDUCATIONAL ALTERNATIVE WHATSOEVER. I REFER TO THOSE THOUSANDS WHO DO NOT LIVE WITHIN COMMUTING DISTANCE OF A RESIDENT SCHOOL, AND WITH JOB AND FAMILY RESPONSIBILITIES, HAVE NEITHER THE TIME NOR MONEY TO COMMUTE LONG DISTANCE. AND HOW DO YOU HANDLE THOSE SEVERAL THOUSAND STUDENTS PURSUING COURSES AT SEA, ON SHIP AND SUBMARINE DUTY?

C. LAST, BUT HARDLY TO BE IGNORED, ARE THOSE WAR INJURED, HANDICAPPED, AND HOME BOUND VETERANS FOR WHOM CORRESPONDENCE COURSES ARE THEIR PRIMARY MEANS OF CAREER EDUCATION. THOSE WHO WISH TO REMOVE THEMSELVES FROM THE ALREADY BURGEONING ROLES OF WELFARE AND PUBLIC SUPPORT WILL HAVE BEEN DEPRIVED OF THEIR MAJOR OPPORTUNITY FOR PERSONAL GROWTH AND INDEPENDENCE.

I FAIL TO UNDERSTAND THE THOUGHT PROCESSES THAT WOULD OPENLY DISCRIMINATE AGAINST THOSE G.I. BILL STUDENTS WHO PURSUE CORRESPONDENCE COURSES. THE AMOUNT OF MONEY INVOLVED HERE IN TRAINING 28,000 PEOPLE IS 3.97 MILLION DOLLARS IN FISCAL YEAR 1981 AND 9.13 MILLION IN FISCAL YEAR 1982. TOTAL -- 13.1 MILLION. CONSIDER THIS! IF ONLY 60% OF THESE STUDENTS SHOULD TRANSFER TO RESIDENT SCHOOLS AND ARE REIMBURSED AT ONLY $407 A MONTH (MARRIED-NO CHILDREN, FOR EXAMPLE), THE COST FOR FISCAL YEAR 1981 WILL INCREASE TO

$41,000,000 AND FISCAL YEAR 1982, TWICE THAT AMOUNT OR $82,000,000. THIS IS AN ADDITIONAL EXPENDITURE OF $110,000,000 - OR 1,181%. SURELY THIS IS NOT WHAT PRESIDENT REAGAN HAD IN MIND, AND AS TAXPAYERS WE CAN HARDLY FIND THIS TO BE A RATIONAL NOR PALATABLE ACTION. BASED ON SHEER COST EFFECTIVENESS, THE VETERANS ADMINISTRATION AND THIS COMMITTEE SHOULD ENDORSE CORRESPONDENCE EDUCATION - NOT ELIMINATE IT!

MY FINAL POINT CONCERNS AMERICA'S COMMITMENT TO ITS VETERANS AND SERVICE PERSONNEL. WHAT ARE AMERICA'S COMMITMENTS UNDER THE G.I. BILL? AND I'M SPEAKING AS A VETERAN WHO USED HIS G.I. BILL. AT A TIME WHEN THE ALL VOLUNTEER FORCE CONCEPT HAS FALTERED, AND A NEW G.I. BILL IS BEING CONSIDERED, CAN WE AFFORD THE ADVERSE PUBLICITY OF BREAKING PROMISES AND COMMITMENTS TO THOSE WHO VIEWED G.I. BILL BENEFITS AS A MAJOR INDUCEMENT FOR ENLISTMENT? REMEMBER ALSO, EACH OF THESE 28,000 VETERANS HAVE IN THEIR POSSESSION A "CERTIFICATE OF ELIGIBLITY" ON VETERANS ADMINISTRATION LETTERHEAD WHICH READS IN PART, "THIS IS TO CERTIFY THAT (NAME OF STUDENT) IS ENTITLED TO ENROLL IN AND PURSUE THE PROGRAM OF EDUCATION OR TRAINING SHOWN BELOW UNDER CHAPTER 14, TITLE 38, U.S.C. THE "SHOWN BELOW" SECTIONS INCLUDE, OF COURSE, THE ACCREDITED CORRESPONDENCE SCHOOLS AND COURSES CHOSEN BY THESE G.I. BILL ENTITLEES.

THE ARBITRARY ELIMINATION OF CORRESPONDENCE SCHOOLS FROM THE G.I. BILL IS A SERIOUS AND COUNTER PRODUCTIVE MOVE TOWARDS A BALANCED BUDGET. IT WILL WORK AGAINST IMPROVING THE QUALITY OF OUR MILITARY FORCE. IT IS A SETBACK IN HELPING TO MAKE PEOPLE EMPLOYABLE IN TODAY'S INCREASINGLY

COMPLEX JOB SKILLS. I URGE YOUR CAREFUL CONSIDERATION OF THE CONSE-
QUENCES OF THIS ACTION. I URGE YOUR SUPPORT FOR RETENTION OF CORRE-
SPONDENCE SCHOOLS IN THE G.I. BILL.

THANK YOU.

CAREER TRAINING BY THE CORRESPONDENCE SCHOOL METHOD – WHY IT MUST BE PRESERVED IN THE G.I. BILL

A Statement for the Record
U.S. Senate Committee on
Veterans' Affairs
Hearing Held May 6, 1981

Submitted by
John F. Thompson
President
McGraw-Hill Continuing Education Center
3939 Wisconsin Avenue, N.W.
Washington, D.C. 20016
202-244-1600
In Behalf of the
National Home Study Council
1601 18th Street, N.W.
Washington, D.C. 20009
202-234-5100

May 1981

SOME FACTS ON CORRESPONDENCE TRAINING
UNDER THE G.I. BILL

1. The Veterans Administration has made a promise and commitment to 28,000 veterans and servicemen currently pursuing correspondence training programs under the G.I. Bill. If funding is eliminated in midstream, how do those people complete their training?

2. According to studies by the National Center for Education Statistics, correspondence course tuitions are considerably less than those of resident schools. Further, under the current G.I. Bill, correspondence school students are paid only 70% of the tuition amount -- not a monthly stipend.

   Eliminating correspondence training from the G.I. Bill will force numerous servicemen and veterans into higher cost resident schools. Since attendance at resident schools costs more, any savings realized by cutting out correspondence schools will be nullified.

3. Correspondence courses reach out to train veterans who are geographically isolated, homebound by war injuries, or unemployed and unwilling to attend resident schools with people who are many years younger.

4. Veterans studying by correspondence under the current G.I. Bill are paid only 70% of the cost of tuition and are paid only after they have completed their lessons. This "after the fact" payment method makes overpayments impossible.

5. Correspondence schools provide entry level job training in skill areas of critical national value: electronics technology, computers, engineering topics, etc. Correspondence study is often the "last chance" school for veterans.

6. Correspondence training is a top choice of active duty service persons: over one-third of the Vietnam era service persons chose correspondence schools as their method of study.

7. Correspondence training is effective. The largest supplier of correspondence courses is the U.S. military. The various armed services train over one million students a year using this cost effective method.

8. Correspondence training helps get non-productive and under-productive veterans into useful civilian jobs fast. Courses are practical and vocational. Correspondence training has long been used by business and industry for internal personnel training. The nation's economy benefits with every technician trained by this method.

STATEMENT IN BEHALF OF THE NATIONAL HOME STUDY COUNCIL

I am John F. Thompson, President of McGraw-Hill Continuing Education Center of Washington, D. C. I am past President of the National Home Study Council and currently Vice Chairman of its Accrediting Commission. This July I will complete my twentyfifth year of service in home study education.

Before final action is taken on correspondence training in the G.I. Bill, I urge that careful consideration be given to this statement and to the distinguished record correspondence schools have achieved in helping veterans and active duty persons.

The Correspondence School Field

I submit this statement convinced that home study has been of appreciable help to veterans. It is an educational method that is better understood by veterans and the everyday man-on-the-street than by most professional educators, legislators and regulators. It is an unusual combination of educational product and service that is used by people to fill their educational needs. Home study is used in many ways, but by large it is the kind of education that appeals to people who can't or won't take advantage of more conventional educational methods.

Today, more than three million Americans are enrolled in correspondence courses. It is estimated that since 1900 over 50 million Americans have taken correspondence courses.

NHSC schools offer more than 500 different academic and vocational courses by mail, such as: accounting, appliance repair, automotive mechanics, automation, business administration, data processing, electronics, hotel-motel management, law enforcement, microcomputers, surveying, and hundreds of other courses. Some unique courses are not offered in resident schools. All of these courses make use of specifically written texts and quite often include audio tapes, sample materials, and practical "hands on" training. Course lengths range from one to four years. The vast majority of schools enroll and teach students entirely through the mails.

Over the years home study schools can point to a solid record of achievement in providing valuable service to the nation and to many veterans who, without the benefits of home study, would surely have been denied an opportunity for education or training. Since the founding of the first private home study school in 1890, these schools have continued to meet a need not met by traditional education.

More importantly, we should realize that, if we are to attract highly qualified men and women into the military today -- and keep them in the service -- home study training should certainly be one benefit which is offered to them. Why? Because, as the data shows, home study is a top choice of active duty people.

Home study has been an ideal educational alternative for service persons and veterans, including:

* the homebound individuals -- who, because of society's barriers, lack of transportation, or a handicap, cannot take advantage of local educational

resources. Students may be in hospitals or prisons -- but they can continue their education, nonetheless.

* the geographically isolated -- thousands of individuals whose primary source of educational opportunity may well be the school which uses the postal system. Tens of thousands of active duty service people over the years have fit this classification.

* the busy adult -- NHSC surveys reveal that the typical home study student is in his or her mid-thirties, beyond the age when most of us receive our formal schooling. Many returning veterans, unable to devote their time to classroom study, opted to study by mail while they struggled to get reestablished in society, support a family and earn a modest living while still trying to gain -- or update -- a salable civilian skill.

The National Home Study Council

The National Home Study Council, founded in 1926 under the cooperative leadership of the Carnegie Corporation of New York and the National Better Business Bureau, is usually referred to as the NHSC. It is a non-profit educational association of more than 90 accredited home study schools. NHSC is nationally known and its Accrediting Commission is nationally recognized. NHSC schools are located in 23 States and the District of Columbia. The association is financed entirely by dues paid by members. While the Council is a non-profit association, it receives no financial assistance of any kind from the government.

The independent nine-member Accrediting Commission of the National Home Study Council was established in 1955; shortly thereafter, it gained the approval of the U.S. Department of Education as the "nationally recognized accrediting agency" for home study schools. The Accrediting Commission includes five public members (representatives from the fields of industry, postsecondary education, business, government, and counseling), and four members from the field of home study education.

84-082 O—81——13

Home Study and the Veteran

For the veteran or active duty person, home study has long been an accepted way of acquiring a career skill in a convenient, effective way. During the late 1960's and early 1970's, of all active duty servicemen using their G.I. Bill benefits, over half of them used their benefits to enroll with a correspondence school. The barriers of time and space did not prevent these people from preparing to make a smooth re-entry into the peacetime work place. Home study was there to help them. And it did!

In fact, a publication entitled "Veterans Benefits Under Current Education Programs (IB 04-77-1)," published by the Veterans Administration, reported the following:

- More than 1.1 million veterans and service personnel have studied correspondence courses during the period 1966-1976. This represents 17.8% of the total of all G.I. Bill students enrolling in all types of schools.

- More than 33% (or 240,198) of the service personnel on active duty using G.I. Bill benefits enrolled in correspondence courses.

- The report states: "Almost all correspondence training has been taken at schools other than colleges." In fact, 99.2% of the students studied with private home study schools . . . the vast majority of them with NHSC schools.

- For peacetime post-Korean veterans, more than 23% (or 324,510) of the students elected to study by correspondence. Stated the Veterans Administration:

  "The relatively high incidence of correspondence training among trainees who are peacetime post-Korean conflict veterans probably reflects the fact that for many of these older, more established veterans correspondence is the only type of training flexible enough to fit their more rigid family and job requirements."

In the 1980's, we face new challenges as a nation: preserving our liberty by maintaining a strong defense posture. The key asset to a strong militaty

is to have a cadre of educated, talented people. And, if we ever hope to get the best qualified people into our military -- and keep them there -- home study training must be offered as a benefit.

The Benefits and Advantages of Home Study

One of the central advantages of the home study method has been its flexibility.

In a 1976 Veterans Administration report, Senate Committee Print No. 49 (94th Congress) entitled, "Training by Correspondence Under the G.I. Bill," it was stated:

- Correspondence training has a much lower average cost than other types of training. And correspondence training is convenient. Potential trainees, who would have to give up their job or suffer some other inconvenience to take other types of training, can often use their spare time to take correspondence training, as can many service personnel whose duties preclude other types of training. In addition, correspondence training has the attribute of less foregone earnings than other types of training because it can be taken in the trainee's spare time. It, therefore, requires no living expense subsidy in addition to tuition.

Other factors explaining the popularity of home study include:

1. Home study is one of the lowest cost types of education. In a 1976 National Center for Education Statistics Report, "Learning a Skill Through Correspondence," it was stated: "Correspondence programs cost less, on the average, than those taken in resident schools. In 1976, the average charge for all correspondence programs was $698 and $1,693 for non-correspondence programs." A similar 1978 study by NCES affirmed this wide gap.

Here is another specific example:

Electronics Technology Course
(Veteran with 3 Dependents)

Home Study	Resident (full-time)
70% x $1,200 tuition = $840 paid by the government.	12 months x $493 = $4,056 costs paid by the government.

It's simple arithmetic. The Federal Government would save $3,216 on just this one typical case.

2. Home study is a valid educational alternative. More than two dozen research studies over the past 50 years have shown that ". . . the research seems clearly to indicate that correspondence students perform just as well as, and in some cases better than, their classroom counterparts." (Source: Correspondence Study: A Summary Review of the Research and Development Literature by David E. Mathieson, 1970).

3. The single largest supplier of home study in the world is the U.S. military. To active duty personnel, home study training is an integral part of every career person's training portfolio. For example, the Extension Course Institute of the U.S. Air Force enrolls over 300,000 students. The Marine Corps Institute enrolls some 100,000 students. The U.S. Army enrolls over 280,000 students and has over 2,000 courses. Other service correspondence schools include the U.S. Navy and the U.S. Coast Guard. Most of these schools have been operating for 50 years or more.

The Air Force, Army and Marine Corps correspondence schools, through their own volition, applied for and are all accredited by the Accrediting Commission of the National Home Study Council. The military has

identified correspondence study as one of the most cost efficient training methods available.

4. The Federal Government is the single largest supplier and user of correspondence instruction in the United States. In 1973, nearly 2 million students were enrolled by government agency correspondence schools, almost 50% of the home study student body in America.

Federal agencies with correspondence schools include the Federal Aviation Administration, the U.S. Department of Agriculture, the Department of Transportation, the U.S. Postal Service, and the Office of Personnel Management, to name a few.

The government has found home study to be a flexible, effective teaching method which has been proved to be both economical and "controllable" in terms of educational content and level of educational quality.

5. In a 1976 Stanford University research project entitled, Home Based Education, funded by the National Institute of Education, the following major conclusions were reached:

> The "large numbers" of students taking the wide variety of courses by correspondence "provide adequate testimony to the need for home-based (correspondence) education."
>
> Correspondence instruction is relatively inexpensive and "it will continue to have a robust future for the rest of this century."

Budget Considerations

The Administration and Congress are laudably seeking ways to cut the budget in an equitable fashion. But, what is the rationale for simply eliminating a widely accepted, effective, low-cost method of education? Where is the savings if G.I. Bill students are forced to use their entitlement by attending higher cost resident schools?

To summarize our position, we submit that:

a. Correspondence schools represent a low-cost, widely accepted and highly effective means of training veterans and service personnel.

b. There will be no savings to the VA or U.S. Government in forcing students to attend resident schools--in fact, actual outlay will be higher.

c. If 28,000 currently enrolled correspondence students are forced to stop their schooling, the Government will be breaking a serious commitment to those veterans and service personnel.

d. The elimination of correspondence schools will leave thousands of handicapped and homebound veterans stranded with no educational alternatives.

Preserve Home Study for a Strong America

We submit that home study schools have done the nation a service by providing quality career vocational training to over one million veterans. If anything, home study should be commended by Congress for helping to reach out and enhance the employability of veterans who might never have taken any other avenue toward employability.

We submit that if Congress asks the students who took correspondence courses if they had benefited, the overwhelming response would be "YES."

We submit that correspondence training has, for over three decades, helped underemployed or unemployed veterans, disabled or isolated veterans, and older or disadvantaged veterans, and opened the door to educational opportunity to them.

We submit that correspondence school educational benefits help attract qualified people into the military.

We submit that it is in the nation's best interest that Congress encourage greater participation by veterans in correspondence training -- to put more people back to work to get this country going again.

We face a need in our society to provide our veterans and service people with more ways to obtain specific, job-related training. We must make better use of alternative forms of education like home study which are, by their nature, well-equipped to fill critical gaps in our educational system.

Correspondence training will continue to grow in the military, in the government and in civilian circles because there will be future generations of citizens who won't be able to report regularly to a classroom to learn, but who, nonetheless, need and deserve the right to study on their own, wherever they wish, at their own learning pace.

America needs home study as never before, and Congress should support this educationally effective, energy efficient, low-cost way to train veterans and active duty service personnel.

RESPONSE OF JOHN F. THOMPSON, PRESIDENT OF MCGRAW-HILL CONTINUING EDUCATION CENTER, TO A QUESTION SUBMITTED BY HON. BOB KASTEN, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Question 1A. I believe correspondence course merit further study if we are, as a Committee, going to continue their funding by the VA, or eliminate their funding completely as the Chairman's bill, S. 918 would propose to do. In this regard, could you provide me with data concerning the actual employment rates of your graduates as they relate to their field of study with McGraw-Hill?

Question 1B. In addition, I would like to see the figures that show the completion rate by veterans who enrolled in your programs.

Answers 1A and 1B.

McGraw-Hill Continuing Education Center

3939 Wisconsin Avenue, N.W.
Washington, D. C. 20016
Telephone 202/244-1600

Office of the President

May 18, 1981

Mr. Kenneth P. Bergquist
Chief Counsel
United States Senate
Committee on Veterans' Affairs
Washington, D. C. 20510

Dear Mr. Bergquist:

Subsequent to my testimony before the Committee on Veterans' Affairs, May 6, 1981, Senator Kasten's staff has requested additional information regarding the employment and completion rates for our correspondence courses.

Attached is course-by-course data which I hope you will find enlightening. The percentages on employment data are taken directly from the Veterans Administration Occupational Graduate Employment Report -- required by the VA.

The percentages for course completions are taken from our own management data for the years 1976-77-78. Data beyond 1978 is not yet available since most students who enrolled in 1978 are still in training.

We are proud of our record as evidenced by these percentages and would welcome comparison with any statistics of resident institutions. As an example, I am enclosing a reprint from the L. Steven Zwerling book, "Second Best -- The Crisis of the Community College." From the standpoint of formal education, community college students closely parallel our own students. But based on employment, academic achievement and employability, the similarity ends and the superiority of correspondence schools should be evident.

Correspondence schools play a vital role in making veterans employable in good, well paying jobs. The evidence is clear.

Mr. Kenneth P. Bergquist
Page Two

The passage of S.018 will totally deprive veterans and servicemen of the opportunity to pursue career correspondence courses under the G.I. Bill. And the cost of forcing these people to attend resident schools will completely nullify any savings to the Administration. Training costs will, in fact, be appreciably more.

Sincerely,

John F. Thompson
President

JFT/mth

enclosure

Completion Rates & Employment Data
on Correspondence Courses of the
McGraw-Hill Continuing Education Center
(National Radio Institute)
1939 Wisconsin Avenue
Washington, D. C. 20016

May 7, 1981

TITLE OF COURSE

	Servicing Electrical Appliances	Aircraft Electronics	Color TV Servicing	Industrial Electronics	Automotive Tune-Up	FCC License	Complete Communications	Digital Electronics	Marine Electronics	Mobile Communications	Advanced Color TV	Master Air Conditioning/ Refrigeration	CB Radio
Employment data (based on graduate survey required by the Veterans Administration)													
Percent Employed in the same type of work	42.3	45.5	52.6	31.4	28.1	41.3	45.6	36.6	28.6	48.6	63.2	54.4	30.8
Percent employed in the same or a closely related type of work	72.2	90.9	84.2	85.7	60.9	76.1	83.2	82.1	71.4	85.7	95.0	82.3	69.2
Course Completion Rates by Year													
1976	70.1	45.0	57.8	29.6	55.6	48.3	44.5	47.9	45.0	45.0	81.2	72.3	
1977	50.0	45.0	54.6	26.2	52.9	45.7	44.4	53.1	45.0	45.0	78.3	71.5	42.1
1978	54.2	46.2	54.9	27.8	51.1	44.4	43.2	49.4	46.2	46.2	72.3	71.0	43.2

Fewer than 25 percent of students in community or 2-year colleges ever graduate; the average annual income of these graduates is about $9,500.

Fewer than 12 percent of students in community colleges complete 4 years of higher education.

Fewer than 5 percent of community college students graduate from professional and graduate schools or ever attain an income in excess of $20,000.

RESPONSE OF THE NATIONAL HOME STUDY COUNCIL TO WRITTEN QUESTIONS SUBMITTED BY HON. ALAN CRANSTON, RANKING MINORITY MEMBER OF THE COMMITTEE ON VETERANS' AFFAIRS

Question 1

As you know, section 604 of Public Law 96-466 --- a provision that was enacted as an alternative to total elimination of GI Bill benefits for correspondence training--- reduced from 90 percent to 70 percent the portion of the cost of a course of correspondence training for which the VA may provide reimbursement. Have you any data on the impact this reduction has had on the number of veterans using GI Bill benefits for correspondence training?

Answer:

On May 5-6, 1981, we surveyed the 12 NHSC-accredited schools which enroll veterans in correspondence courses under the GI Bill so that the number of enrollments in the seven months prior to the adoption of the 70% reimbursement provision (March through September 1980) could be compared with enrollments in the seven months following the adoption of the 70% provision (October 1980-April 1981).

In the seven months prior to the adoption of the 70% provision, 13,477 students enrolled in these schools using their GI bill benefits. In the seven months following, 11,088 students enrolled in the same schools using their GI Bill benefits. This represents 17 1/2 % decrease in the number of students enrolling under the GI Bill.

Comparing the number of GI Bill enrollments to the total enrollments in the same schools during the same fourteen month period, the percentage of GI Bill enrollments also dropped significantly. From March through September 1980, GI Bill enrollments were 22.16% of the total enrollment. After the change- October 1980 through April 1981- GI Bill enrollments were only 17.5% of the total enrollments.

When the combined effects of the change in the amount of disbursement from 90% to 70% and the significant reduction in the number of actual enrollments are considered, the Veterans Administration should realize a significant budgetary savings from legislation already enacted. Since the trend in both the number and percentage of GI Bill student enrollment in correspondence courses is down, it can be expected that the trend in the amount of savings will continue.

Question 2

In response to a question from Senator Simpson, you indicated that the revision of the so-called "50-percent employment rule" enacted by Public Law 96-466 requires you to compute the number of veterans employed full-time in the field

(Question 2, cont.)

for which training was received. Section 1673 (a) (1) (B) as amended specifies that individuals employed for "an average of ten hours a week" may be included in the computation of the employment ratio. Would you clarify this discrepancy for the record?

Answer:

When Mr. Bernard H. Ehrlich responded to Senator Simpson's question on May 6th on the "50 percent employment rule," Mr. Ehrlich's communication was that for years the law required schools to show that 50% of the students who graduate and who were available for placement were working in the field for which they were trained.

There was nothing in the history of the GI Bill or in the Statement of Purpose to indicate that veterans would have to secure full-time employment in order to meet the purpose of the legislation.

The 1980 amendments have clarified this point. The amendments now require that individuals must be employed for "an average of ten hours per week."

All of the National Home Study Council schools are in compliance with the law as amended.

INTENTIONAL BLANK

Chairman SIMPSON. This is one that we're going to give close attention to. There are people that are responsibly using correspondence courses. We just want to be sure that it's enough to justify the cost to the Federal Government.

I couldn't help but reflect that you said you used your GI bill benefits for avocational pursuit. I did, too. I remember that distinctly.

Mr. THOMPSON. Many of us did, sir.

Chairman SIMPSON. Anyway, the figures are the things that disturb me, and you indicate a graduate employment rate of between 57 and 83 percent.

Mr. THOMPSON. Yes, sir.

Chairman SIMPSON. And the OMB figures indicate that only 41 percent of the people who take the courses finish them. And second, that less than 50 percent of those who finish find employment for the field in which they are apparently trying to train themselves.

Do you dispute those figures?

Mr. EHRLICH. Sir, can we give you a quick answer to that?

Chairman SIMPSON. Please.

Mr. EHRLICH. And I think it might be helpful to you.

First of all, they have added the word "full time" in there. That less than 50 percent are employed full time. By law, we are required to do a survey of our students and we must show that 50 percent of those who graduated are employed in the field for which they are trained.

Those figures are checked by the Veterans' Administration and they are based on reports that come back from the veterans themselves. We have more and more individuals today who take home study or take another program because they need a second income and this is true in the case of some of Mr. Thompson's students. Our schools meet the requirements of the GI bill which now require that individuals be employed for an average of 10 hours a week.

If you are going out into a new field you need to build the clientele, it takes a little time to do so before those people will go out of a job that they now have into the field for which they are trained on a full-time basis.

Regarding the matter of how many graduate, Mr. Thompson has outlined to you that our figures compare very favorably with colleges, universities, and our programs are as long as the community colleges and junior colleges, and yet our rates of completion are superior to that group.

Chairman SIMPSON. You indicate that the elimination of correspondence training might cost more money than it would save, by forcing the veteran to go into a more expensive full-time resident school, and yet it would be my hunch that the veteran who is taking correspondence courses with the obligations of family and job might not be at all receptive to that idea, and I think it's just more likely that they would seek to somehow continue that type of correspondence activity, or if it had just been casual or a vocational in nature that they would quit.

Mr. EHRLICH. Well, can we just answer that for you just a moment, sir. As part of our membership in the National Home

Study Council, we have the Air Force Institute, the Marine Corps, and the Army. Over 1 million men today take home study in the Armed Forces. They are used to the home-study method.

And most of them when they get out seem to want to pursue the home-study method. In the Marine Corps, for example, you get major points for completion by home-study courses. So as far as we're concerned we're not sure these people will not wish to continue with home study.

In addition, Mr. Thompson merely took a figure of 60 percent, figuring that 40 percent would probably go the way you suggested. And even that would show that the cost would be at least triple of the present cost of the GI training for correspondence.

Anyway you figure it, if any group, whether it be 20 or 30 percent even, as low as that, you would find it would be costing more under the GI bill for them to take it by resident courses rather than home study.

Chairman SIMPSON. Well, we will pursue it, and see that it's effective and useful with relation to the Government objective, and that it's being properly utilized, properly monitored, and if it's not meeting the objective of the original regulations and statute, why let's either do something with the program or revise the regulations. That's where we'll go with it.

Thank you very much for appearing and for your patience in this morning's activity. Thank you.

Mr. THOMPSON. Thank you.

Chairman SIMPSON. Next we have Mr. Graves, Lawrence Graves, vice president of the Aircraft Owners and Pilots Association.

Good morning.

TESTIMONY OF W. LAWRENCE GRAVES, VICE PRESIDENT, AIRCRAFT OWNERS AND PILOTS ASSOCIATION

Mr. GRAVES. Good morning, Mr. Chairman. We've been looking for this forum for a year and a half. We're severely impacted by the Budget Committee's decisions, but we're a very small portion of the budget and we can't find anybody to talk to because we are.

The Budget Committees are caught up in multibillion-dollar operations and——

Chairman SIMPSON. Have you really had trouble finding a forum to tell your story?

Mr. GRAVES. This is our first formal one since the original recommendation—since the Congress got on the budget kick last year. What happens is that the Members of both the House and Senate authorizing committees wrap themselves in the budgetary cloak. And they've been going to markup on budget reconciliation instructions without hearings.

That's specifically what happened when the House Veterans' Committee voted last year to terminate flight training. They said, we're forced to do it by the budget reconciliation process. We had no chance to challenge the budget assumptions or, even to talk to them.

Chairman SIMPSON. Well, we're going to give you a start. We're going to give you 5 full minutes. [Laughter.]

Starting now.

Mr. GRAVES. I'm not going to use my 5 full minutes. I have talked to a few thousand veterans over the last year. In fact, our office has been practically immobilized by phone calls when we put something in our AOPA newsletter. It's just phenomenal the number of people that you're catching in midcareer on these termination ideas.

But we challenge the budget assumption for two fundamental reasons. One is they're saying that nobody who is taking flight training is going to use his GI Bill benefits for any other purpose. And nobody who plans to enroll in flight training will ever use his GI benefits for any other purpose if flight training is terminated.

That cannot be true. I know it's not true because some people, now, at the 60 percent level will enroll at the local junior college and get their monthly stipend and put in whatever is leftover—and there's a substantial amount above tuition and books—to take that flight training.

And second, they have failed to realize that the veteran who would have taken flight training and now goes on to some other academic form of study will receive a higher reimbursement rate.

So naturally, he's going to, if he chooses or is forced not to take fright training, he's going to get more money out of the deal. And so with these two, what I consider to be fundamental flaws in their budgetary assumptions, there's just no way the savings are there that CBO is predicting.

I have listed in my testimony the requirements for flight training which are very substantial. They place a burden both on the veteran and on the school that gives the flight training. I think if you would just take a review look at the flight training statute you would find that it's just rife with limitations and special requirements designed to prevent abuses.

Finally, I want to respond to two comments I heard earlier today. Ms. Starbuck raised the issue of the General Accounting Office study on flight training. And, at that time, she said that the GAO had found out that only 16 percent of the people in flight training had gone into the business of flying.

The GAO study was limited to essentially airline pilots or people who are flying for a living. The sample that the GAO used was provided by the Veterans' Administration which provided the names of individuals who had not completed their flight training.

There was only a requirement that they have used 80 percent of their maximum. And 80 percent of the maximum is 80 percent of the FAA minimum. So, with the GAO using the VA's sample, they simply couldn't show that everybody who had taken the training had become a professional pilot because they were not yet eligible to do so.

Finally, a pilot who completes his course needs to build hours before he can reach his ultimate goal, which is probably a 747 captain for United. In the Washington, D.C. area, a flight instructor working part time, which is generally how you start out in the field, at 20 hours per week will earn $15,360 next year.

So part time is pretty good. It's similar to an attorney who hangs up his shingle. The VA would consider him a full-time attorney but nobody shows up in his office for a while, as you may know.

Chairman SIMPSON. Yes. I remember.

Mr. GRAVES. And finally, Mr. Schwab indicated that he had had only one letter complaining about flight training termination. And I can assure him that AOPA would be glad to have the members of the American Legion and AOPA, who are affected by this thing, drop him a letter if his mail load is too low.

They're generally interested in pensions and hospitals. That's where the big programs are and this is a small thing. But we hear directly from pilots who are affected.

Chairman SIMPSON. Thank you. Your organization, the Aircraft Owners and Pilots Association, I think, has a good reputation for credibility. You did remarkable work when we were talking about possible changes in the terminal control areas, that issue a couple of years ago. And so I'm pleased that you are testifying.

[The prepared statement of W. Lawrence Graves follows:]

AIRCRAFT OWNERS AND PILOTS ASSOCIATION
P.O. Box 5800, Washington, D.C. 20014 / TEL: (301) 654-0500 / TELEX 89-8468

PREPARED STATEMENT OF W. LAWRENCE GRAVES, VICE PRESIDENT,

AIRCRAFT OWNERS AND PILOTS ASSOCIATION

Regarding G.I. Bill Flight Training

COMMITTEE ON VETERANS AFFAIRS

HONORABLE ALAN K. SIMPSON, CHAIRMAN

UNITED STATES SENATE

MAY 6, 1981

Mr. Chairman, the Aircraft Owners and Pilots Association represents over a quarter of a million pilot members. Many are those veterans who have utilized the G.I. Bill for flight training. We are strongly opposed to S. 918.

Fundamentally, we believe that any educational program for veterans which has a vocational education component should include flight training as an eligible course of study. We feel confident no other course of study can be as economically and professionally beneficial to the veteran.

The Congress is facing a unique parliamentary situation these days with the new congressional budget process. It is a situation in which the House and Senate Budget Committees are voting on what the inflation rate for next year will be or what the unemployment rate will be. After these so-called decisions are made, statistical assumptions are made for programs within the various spending categories.

Unfortunately, flight training for veterans is so relatively insignificant in the congressional budget process, that it gets about five minutes of attention from the Congressional Budget Office and about ten seconds from the two budget committees.

This insignificance has allowed the budgetary assumptions upon which the termination recommendation is made to go unchallenged. It is time for this committee to take a look at these assumptions.

First, the assumptions made by the Congressional Budget Office in calculating the savings from flight training repeal were that no eligible veteran currently or potentially enrolled in flight training would use his benefits for any other purpose once the repeal took effect. Common sense indicates this assumption is incorrect.

Secondly, the CBO assumptions failed to consider the fact that an eligible veteran enrolled in flight training receives reimbursement at a rate significantly below that of the ordinary reimbursement rate for a single veteran with no dependents. Because G.I. Bill benefits are scaled upwards depending upon the size of the veteran's family, it is conceivable and likely that a veteran who would have enrolled in flight training would use his benefits elsewhere and be reimbursed at a much higher rate than under flight training.

Both of the above factors would indicate that the 100 percent savings predicted by the Congressional Budget Office for flight training repeal is erroneous.

For a variety of generally political reasons, flight training under the G.I. Bill has been monitored with the highest degree of watchfulness (and red tape) on the part of the Veterans Administration and the Congress. Administrative burdens on those who provide flight training to veterans and on the veterans themselves are the most stringent in the program.

The Congress has written the law permitting flight training for eligible veterans in such a way as to insure that the training is vocational in nature, that stringent standards be applied to schools offering flight training, and that the program be administered in such a way as to provide incentives for the congressional goal of vocational flight training.

First, the Veterans Administration may only approve flight training where it finds that the training is "generally accepted as necessary for the attainment of a recognized vocational objective."

Second, a veteran must have earned a private pilot's license before being eligible to pursue flight training under the G.I. Bill.

Third, the veteran must "meet the medical requirements necessary for a commercial pilots' license."

Fourth, flight schools offering flight training for veterans must be approve both the the Federal Aviation Administration and by the state in which it is located.

Fifth, the veteran is required to pay a minimum of 40 percent (formerly ten percent) of the cost of his flight training. Studies under the 90 percent rate of reimbursement showed that the average veteran paid about one-third of his flight training cost. This is clearly higher now.

Sixth, the veteran loses eligibility for G.I. Bill benefits at a financial rate faster than any other veteran receiving benefits under the program. This simply means that a flight training veteran's G.I. Bill benefits are worth less than other eligible veterans.

Finally, reimbursement is made to the veteran after he has paid for the cost of his training, and only after the Veterans Administration has received certification both from the veteran and the flight school that the training was received.

Notwithstanding the burdens, every evaluation of the flight training program shows it ranks among the highest in completion rate and among the highest in those graduates who continue on in the field.

What the studies cannot show is the importance of flight training to the national economy and to the national defense. The Committee is well aware of the "commitment" the Congress supposedly made to the veterans through the G.I. Bill. It should keep in mind that we need a healthy supply of pilots and that that supply is diminishing.

Should we have the airlines competing more intensely with the military services for pilots? Should we permit a situation to arise where the country has a shortage of pilots? Did we learn a lesson at the beginning of World War II when every pilot in the country was worth his weight in gold?

Last year's cutback in the program represented a loss to the nation and to many individual veterans who had a reasonable expectation of pursuing flight training under the G.I. Bill. We recommend the Committee restore the 90 percent reimbursement rate for the remaining years of the program.

Chairman SIMPSON. Now, you speak of a high completion rate and the high rate of job placement in the field of training. And the VA and OMB figures obviously do not support that conclusion. I think OMB found a 52-percent completion rate and a 43-percent rate of field related placement among those who completed the program.

Do your figures include individuals that VA and OMB have chosen not to include? And if so, what's the basis for that discrepancy?

Mr. GRAVES. We have no way of challenging their statistics. We do notice the VA statement in the Congressional Record in April 1979 that says completion rates are high, an average of 76 percent.

All of the VA studies have shown that we have usually about the third highest completion rate of any of the VA programs.

And, second, each school that gives flight instruction is required to follow its graduates for 2 years and report back to the VA whether or not they're in the business. They do. And those reports that they send back to the VA show about 75 percent of the graduates are professionally employed in aviation.

So that is the basis that we make our judgments on.

Chairman SIMPSON. You mentioned there's presently a shortage of qualified pilots. What is your sound substantiation for that, when we see airline deregulation causing termination of service to many areas of the United States and standby personnel and strikes, and that type of thing.

Mr. GRAVES. Airline deregulation has vastly increased the demand for the number of pilots. People are flying in smaller planes now, so you need a greater number of pilots per passenger. And rural areas, Wyoming is the obvious example, you're flying people in airplanes that have 20 passengers or fewer, 8 passengers, something like that.

And that is happening more and more where the big trunk carriers are pulling out of those kinds of markets and the commuter airlines and second-level carriers are coming in with smaller airplanes and a greater number of pilots per passenger load.

I can supply figures for the record that I have here on growth of demand for pilots. But with VA flight training eventually ending, we see a tremendous competition between the airlines and the military for pilots. And the obvious winner most of the time is going to be the airline.

Chairman SIMPSON. Well, I appreciate your testimony. Given these figures that we have seen and examined—and I know that Senator Cranston worked diligently and had hearings on this and we did revise the benefit level—and accepting your statement that the program is already just about as heavily regulated and restricted as it possibly can be, if we still find what we are told are casual or avocational uses of training benefits it will, indeed, be a quandary.

Mr. GRAVES. Let me suggest that we could, perhaps, supply you with some questions to ask the VA which has the data. And, perhaps, that would better define the debate in factual terms for you and they could supply you with the information they receive.

Chairman SIMPSON. I would appreciate that. I have always believed that the way to have a good spat is when both sides have the facts. It would be helpful. [Laughter.]

Mr. GRAVES. OK.

Chairman SIMPSON. We do thank you for your testimony.

Mr. GRAVES. I want to say that we appreciate the work you've done on the Jackson Hole Airport.

Chairman SIMPSON. Well, thank you and thank you for your assistance. You people have been very helpful on that issue. Thank you.

Mr. Cooley, I believe, Richard Cooley with Mr. Barrett and then Neil Hollander. And if you would each give your individual statements. Then the questions I will ask to the final panel will be directed to both.

Thank you.

TESTIMONY OF RICHARD P. COOLEY, COUNSEL OF THE TRAVELERS INSURANCE CO., ACCOMPANIED BY JAMES E. BARRETT, EXECUTIVE VICE PRESIDENT, MUTUAL OF OMAHA INSURANCE CO.; AND DAVID PATTERSON, HEALTH INSURANCE ASSOCIATION OF AMERICA

Mr. COOLEY. Mr. Chairman, my name is Richard Cooley. I am with the Travelers Insurance Co. With me is Mr. James E. Barrett, executive vice president of Mutual of Omaha, and Mr. David Patterson of the Health Insurance Association of America.

We appear on behalf of the Health Insurance Association of America. The 325 members comprising that association cover over 100 million Americans for hospital expense insurance.

We appreciate the opportunity to again present over views on S. 1058. Time, since in introduction, has limited our research and comments but we do have a few thoughts which we hope will be helpful. Our initial reaction to the introduction of this legislation was one of surprise.

We believed and action Congress took last year resolved the issue. Section 401 of Public Law 96-330, which relates to evidence of inability to defray necessary medical expenses in VA hospitals, limits the presumption of inability to pay to service-connected disabled veterans, those receiving assistance under title 19, "Medicaid," and those in receipt of veteran's pensions.

Congress determined that the Veterans' Administration should seek information as to whether a veteran receiving or seeking non-service-connected disability care had health insurance and whether or not that health insurance would basically cover the cost of such treatment.

If, in fact, he did have such insurance, then he would be referred to a non-VA facility, if one was available. If such practice is, in fact, being followed by the VA, then it would appear that the recovery of costs from insurers becomes somewhat of a moot question.

We believe that our comments are well documented within the records of this committee. We note that your committee was concerned last year as to directing the undertaking of certain studies as to the admissions, frequency of admissions, durations and recoverability of expenses, and these things, I believe, are all of record.

Let me just summarize very briefly what our concerns continue to be. We believe that this legislation, as proposed, is contrary to sound insurance practices, particularly as to billing procedures and effective cost control measures. We are concerned as to the transfer from a tax base to the private sector.

The absence—we are concerned as to the absence of any valid studies as to frequency and recoverability of costs. This information is essential if the insurance industry is to respond in a responsible and effective manner. There is a question as to due process in the modification of existing contracts.

We are concerned as to the potential of substantial administrative costs both on the part of the Veterans' Administration as well as the insurance industry. We anticipate our cost per transaction would be substantially higher than our norm.

The bottom line is that any cost savings, we believe, are illusory. It is, rather, merely a transfer from a tax base to the private sector.

And thank you very much, sir.

Chairman SIMPSON. Thank you.

[The prepared statement of Richard P. Cooley follows:]

PREPARED STATEMENT OF RICHARD P. COOLEY, COUNSEL OF THE TRAVELERS INSURANCE COMPANY ON BEHALF OF THE HEALTH INSURANCE ASSOCIATION OF AMERICA

My name is Richard P. Cooley, Counsel, of the Travelers Insurance Company. With me is James E. Barrett, Executive Vice President of the Mutual of Omaha Insurance Company. We appear today on behalf of the Health Insurance Association of America. The 325 compaies of the Association cover over 100 million Americans for hospital expenses.

We appreciate the opportunity to provide our views again on S. 1058, a bill to amend Title 38 of the United States Code to provide for the right of the United States to recover the costs of hospital, nursing home, or outpatient medical care furnished by the Veterans' Administration to veterans for nonservice-connected disabilities to the extent that they have health insurance or similar contracts or rights with respect to such care, and for other purposes. Time, since the introduction of S. 1058 on April 30, has not permitted us to thoroughly evaluate this bill, but we do have some comments that we hope will be helpful.

Our initial reaction to the introduction of S. 1058 was one of surprise. We believed the action Congress took last year resolved the issue. Section 401 of Public Law 96-330,which relates to evidence of inability to defray necessary medical expenses in VA hospitals,limits the presumption of inability to pay to service-connected disabled veterans, those receiving assistance under Title 19 "Medicaid" and those in receipt of a veteran's pension. Congress decided that the Veterans' Administration should determine if a veteran seeking care for a nonservice-connected disability has health insurance that would basically cover the cost of care

and, if so, to direct such veteran to a non-VA community facility if one is available. If such practice is in fact being followed by the VA, then it would appear that the recovery of such cost from insurers by the VA becomes moot and without purpose.

We also note that your Committee decided last year to direct studies to determine the extent to which veterans receiving VA care for nonservice-connected disabilities are covered under health care plans and the potential effect of the legislation on health insurance premiums. Your Committee recognized then that this review and evaluation would have to be undertaken before a law of this kind could be effectively implemented. These studies were not undertaken, but we feel they are necessary as a prerequisite to consideration of this law.

Your Committee was also concerned then that the proposed law could cause an inflationary increase in health care costs that could not be justified and could result in unwarranted administrative costs to the Federal Government and insurance carriers. These concerns, and others, remain. Public policy, we believe, would not be served by precipitous action on this legislation at this time. We recognize and sympathize with the hard decisions facing Congress on many budget issues, but we are convinced that this legislation is contrary to the solutions which the Administration and Congress are seeking to solve the nation's financial and inflationary problems.

Our other concerns, as expressed in previous testimony, remain. We are convinced that the concept of this legislation discriminates

against policyholders of private insurance contracts, and produces results which are contrary to the current efforts of Congress, the Administration, and the private sector to reduce and control the cost of health care. We continue to believe that the concept of this legislation is contrary to sound insurance practices, creates serious and costly administrative and billing problems, and is contrary to the spirit and intent of the McCarran-Ferguson Act.

We are greatly concerned that S. 1058 would unnecessarily transfer costs from the public sector to the private sector in the form of higher premiums. The total cost of the transfer would be increased by appicable premium taxes and by the administrative costs incurred by insurers in paying such benefits as well as the profit margin anticipated in the insurance industry. So if one looks at the total transfer of costs, it is substantial. Such transfer would be principally borne by the employer segment of our economy which is the primary source of insurance benefits for the major segment of the employed population.

We would also note that today the structuring of premium rates for hospital services, including room and board and ancillary (miscellaneous) services, do not include any experience derived from Veterans hospital confinements. The frequency of confinement, duration of confinement or costs of miscellaneous expenses incurred do not form any part of the experience utilized in developing the rate structure, This is obviously true since such confinements have been excluded by both the specific Veterans Hospital exclusionary

language, as well as by the common concept that insurance only pays for actual expenses incurred and for which there exists a legal obligation of payment in the absence of ins ·nce. Since no payments have been made, the industry has no data on which a premium rate could be premised.

If one is dealing with a larger group risk wherein the case is experience-rated, the employer proximate to a Veterans Hospital could incur a much greater frequency of confinement which would have an immediate and direct effect on the premium rate structure. Yet another experience-rated employer, not in a geographical area serviced by a Veterans Hospital, would see little or no change in experience and, therefore, little or no change in his premium rate structure.

As to group insurance which is not experience rated, generally the smaller (number of lives insured) cases, the impact would be less dramatic. But nevertheless the cost impact would of necessity be reflected in the premium rate structure if payment for services furnished by a Veterans Hospital is to be required. The individual market would generally follow the pattern of the smaller group cases except that geographical rating concepts are used less frequently, unless one is dealing with major medical or comprehensive forms of individual and family forms of insurance. In the latter instance, geographical areas which include Veterans Hospital facilities would reflect the anticipated cost of benefits which are not now being paid. In the absence of geographical premium rate

structures, all insureds would be subject to a proportionate part of the increased experience level.

Another potential discriminatory result could also occur under this legislation. The non-veteran male employee would bear a disproportionate share of the added premium costs. Employers providing group health insurance who have large numbers of female or non-veteran employees would also be discriminated against.

The bill also raises a legal issue of due process in its application to contracts subject to renewal. The bill would apply to all contracts which are renewed after the bill's effective date. Health insurance policies sometimes remain in force for many years and under guaranteed renewable and noncancellable policies, which are in the majority today, may be renewed from term to term solely at the option of the insured. The insurance company has no control over such renewals. Presumably the new coverage would have to be added in each such instance. The net effect would be to apply the requirements of the bill to a great number of contracts entered into prior to introduction or enactment of the new provisions.

The legislation might also be contrary to the McCarran-Ferguson Act, which leaves to the states the right to regulate the business of insurance. S. 1058 dictates coverage required in health insurance policies contrary to the intent of McCarran-Ferguson.

We have several problems with VA all-inclusive per diem billing. Under current practices in VA hospitals, as we understand it, veterans would be charged on an average category cost for a certain spell of illness on a per diem basis. It is possible that veterans

with the same type of illness might receive entirely different services (i.e., X-rays, medication, tests, etc.), yet insurers would be billed the same amount for each individual under this per diem concept. This is contrary to health insurance practices, in potential violation of many of our contractual agreements, and could lead to several inequitable results.

We believe the all-inclusive per diem billing system that requires us to pay for average rather than actual services is too fraught with serious problems. In order to protect the interests of our policyholders and restrain costs for unnecessary services, insurers generally require itemized bills to verify that the charges are proper and that services were actually rendered. This could lead to litigation that could prevent or delay recovery of funds from insurers

Insurers might also have a problem under the law verifying whether a VA hospital patient is suffering a service-connected or nonservice-connected disability. We submit that it would be difficult to determine if some categories of illness (such as leukemia or psychological disorders) are service connected or not.

Also, as you know, a major national effort is under way to reduce hospital costs through reduction of stays, use of alternative facilities, and elimination of duplicative or unnecessary services. S. 1058 would provide no protection against overutilization and unnecessary services. This mechanism enployed by insurers to determine the reasonableness of services performed is called utilization review. There is no assurance if this legislation

is passed that insurers would be permitted to review or question admissions policies, the type and level of services, or the duration of stay provided policyholders in VA hospitals. We believe it is patently unfair to require insurance companies to reimburse VA hospitals for care it provides insureds without subjecting these hospitals to these various health-care-cost control measures that are required of private hospitals.

And we question whether the added administrative costs to both the Federal government and insurance companies warrant the shifting of this burden from taxes to premiums. There can be no doubt that the proposed legislation will add administrative costs tot the operations of the Veterans Hospitals and to that of the insurance companies.

We are also concerned that if the Veterans Hospitals are afforded the opportunity of recovering benefits for services rendered, they will aggressively seek the fullest utilization of their facilites by encouraging veterans to use such facilties and thereby enter into direct competition with hospitals in the private sector. Any substantial transfer from private sector hospitals could only increase existing problems in the occupancy rate of private institutions and thereby cause an ever increasing reallocation of costs for the services rendered.

We do not believe the VA hospital program was designed or even intended to compete with private sector hospitals, yet this legislation could lead to such a result. If S. 1058 is enacted, the Federal government would be in the position of encouraging

continued use of VA hospital beds with use of insurance while at the same time trying to control hospital costs by paying for closing of other private hospital beds. This potential adverse impact on private hospitals should be thoroughly evaluated and studied prior to enactment of this legislation.

As we noted earlier, if the legislation is passed, any cost saving would be illusory because it would merely shift some costs from the general taxpayer to a more specific set of taxpayers (insureds) in the form of higher premiums. The Veterans Administration would accure a windfall at the expense of the insured public. We do not believe the original concept of the VA hospital program intended that the financial burden of paying for VA hospital care be unfairly allocated.

We believe no compelling reason or creditable evidence warrants consideration of S. 1058 at this time. The action by the Congress last year in directing the VA to send veterans with financial resources to available private sector community hospitals would appear to alleviate any necessity for this law. If reasons are advanced in support of the legislation, we believe the studies contemplated last year by your Committee, and further review and evaluation of the potential impact of this legislation on the insurance mechanism and private sector hospitals, must be undertaken prior to any further consideration of S. 1058.

84-082 O—81——15

Chairman SIMPSON. Mr. Hollander, please give your statement.

TESTIMONY OF NEIL HOLLANDER, VICE PRESIDENT, BLUE CROSS AND BLUE SHIELD ASSOCIATIONS

Mr. HOLLANDER. Thank you very much, Mr. Chairman.

Since I find myself surrounded by the commercial insurance industry here and agreeable so on this occasion, I will attempt to be brief.

I would concur with the previously stated point about the amendments to the veterans bill last year. We believe that the VA Health Care Amendments of 1980 (Public Law 96-330), when fully implemented, will deal with the problems that originally stimulated this proposed legislation. Indeed, we believe the bill before you, S. 1058, if passed, would represent a step backward instead of a step forward, and for that reason, we do not and could not support this bill.

I would like to very briefly summarize for you some of the reasons why we believe the proposal, if enacted, would not have the desired effect and would not bring about the savings to the Federal budget that are envisioned.

One of the things in the past that has been said concerning this issue has been that insurers are accruing windfall profits from veterans who are insured but who are not receiving services in the private sector.

That, sir, is an illusion. Both Blue Cross and Blue Shield plans and commercial insurors experience-rate their accounts. The extent to which veterans receive care in community facilities is represented in the costs experience, but when insured veterans use VA services, this experience does not get included. In other words, we do not charge premiums for benefits we do not provide. Indeed, Blue Cross and Blue Shield plans, which are not-for-profit organizations, make no profits.

The proposal before you, we believe, would represent, in effect, double taxation on those people who have insurance. That is, we all pay in our taxes for the Veterans' Administration. For some citizens, including Blue Cross and Blue Shield subscribers, payments to the Veterans' Administration would amount to their paying twice to support the VA—a charge not levied against many others.

That this bill is discriminatory here is clear. It, for example, excludes health maintenance organizations and those people who are self-insured. In addition, the proposal excludes medicare and medicaid from the program. And this is not only inequitable, but given the nature of the population that we're dealing with, it is likely to dramatically reduce the opportunity of recovering any payments.

A second reason that's often given in support of this proposal is that it would save the Government a great deal of money. We do not believe that there are any convincing reasons to support such expectations. Virtually all previous estimates have been based on the American population generally as opposed to the particular group of veterans receiving care in VA facilities—a group that tends to be older, lower income and have less insurance.

And, as I think you heard in previous testimony today, to the extent that those in VA facilities have benefits that have either

been exhausted or that are very shallow, then the kinds of cost savings that are projected are we believe, unrealistic.

We believe also that the proposed legislation would create new costs that its proponents generally have not recognized. The private sector would have to gear up to deal with this change. We have in the past, at the request of this committee, prepared, using the Veterans' Administration's own data on what they thought the probable claims would be, some estimates of the administrative cost just for Blue Cross and Blue Shield plans.

Adjusting slightly for inflation we estimate that Blue Cross and Blue Shield plans alone would have to pay at least $25 million in additional administrative costs per year if this bill were passed. The important fact about that is that no veteran would get better services for this extra cost. The Veterans' Administration, itself, would have to hire individuals to administer the programs because it is not now equipped to do so.

And, if the administration is seriously trying to restrict Federal employment, the people would be moved out of patient care or other areas of the Veterans' Administration to provide the claims data needed to implement this bill. This bill is not cost containment; it is cost transfer that can only be achieved by increasing total health-care cost.

Moreover, the bill would encourage the use of Government facilities as opposed to existing private facilities. This is just the opposite of what existing law intends for those people who can afford to get community care.

Finally, Mr. Chairman, we concur that there are some serious constitutional issues involved here, and I would like to refer you to our previous testimony in 1979 and to subsequent statements we furnished to this committee in which our counsel discussed the constitutional issues as we see them.

Thank you very much, sir.

Chairman SIMPSON. Thank you very much.

[The prepared statement of Neil Hollander follows:]

PREPARED STATEMENT OF NEIL HOLLANDER, VICE PRESIDENT, BLUE CROSS AND BLUE SHIELD ASSOCIATIONS

Mr. Chairman and members of the Committee, I am Neil Hollander, Vice President, Blue Cross and Blue Shield Associations, representing the nation's Blue Cross and Blue Shield Plans. I appreciate the opportunity to testify before you concerning Senate Bill 1058.

Before commenting on the specific provisions contained in S. 1058, I would like to direct my opening remarks to the provisions of P. L. 96-330, the VA Health Care Amendments of 1980, passed in the last Congress. We believe P. L. 96-330, when fully implemented, will provide the basis for resolving the problems previously associated with the need for legislation mandating third party reimbursement for non-service connected disabilities in VA facilities.

This amendment to the law, which was a result of extensive consideration and testimony in previous years, was designed to encourage veterans who have health insurance to seek health services in the private community health care sector rather than in government facilities.

We believe that the VA should be encouraged to implement this law which not only will increase the appropriate use of the private sector but enable a reduction in government expenditures and facilities. This could all be done while insuring good quality health care for veterans.

We believe S. 1058, if passed, would represent a step backward providing incentives to encourage the use of government hospitals while a more than adequate supply of community facilities already exists. We strongly recommend, therefore, that S. 1058 not be enacted.

I would like to review with you some of the reasons why the proposal, if enacted, would not have the desired effect or bring about the savings to the federal budget that is envisioned. Two arguments have often been made in supporting this type of legislation. The first is that private insurers are reaping a windfall profit by excluding from their policies payment for services in VA facilities and other institutions where care is provided without charge. This perception does not fit the facts.

Insurance rates for veterans and non-veterans are based on the utilization experience of the entire insured group for services covered under the group's health benefits contract. Since VA services are not covered, the rated experience does not include the use of free VA services by insured veterans. In other words, we do not charge premiums for benefits we do not provide. Moreover, Blue Cross Plans pay out approximately 95 per cent of our premium income in benefits. We have no profits.

In testimony during the last Congress, the VA conceded not only that there is no such "windfall profit" but also that premiums would rise for all policy holders, including veterans. I would also like to point out that if insurers did have to pay for care in veterans' health facilities and had to raise their premiums, then those taxpayers -- including veterans -- with Blue Cross or other health insurance coverage who had to pay these added costs would be assuming greater financial support for the Veterans Administration than other taxpayers -- a sort of double taxation.

The proposed legislation is discriminatory in the sense that it seeks recovery only to the extent of insurance benefits. It makes no reference to the individual's ability to pay from personal funds. It makes no distinction between high level benefit and low level benefit policies. It does not apply to HMO's or to those employers who elect to self-insure. An employer who is self-insured would not be subject to responsibilities under this legislation.

In addition, the proposal excludes recovery from Medicare and Medicaid which would be inequitable and drastically reduce the opportunity to recover third-party payment. Most of those veterans affected by the legislation do not have private health insurance benefits.

A second reason given in support of this proposal is the estimate that it will save the federal government a great deal of money. We believe that there are no convincing reasons to support such expectations.

First, although there is some evidence on veterans health insurance coverage, no one has yet described the extent and depth of veterans coverage -- particularly veterans using VA facilities. We believe that if may be inappropriate to apply insurance coverage figures from national surveys to a group of veterans who are, on average, older, poorer, and less educated than the survey respondents.

Also, we understand that many "insured" veterans are in VA facilities because they have exhausted their insurance benefits. As we have said

in previous testimony, if the number of covered veterans is overestimated -- if coverage for those actually insured is shallow -- if veterans turn to VA facilities after exhausting their insurance benefits -- all quite reasonable possibilities, then recoverages from third-party payers will be much lower than estimated. Further, as the 1980 amendments are implemented potential savings should approach zero.

Not only do we think the estimates of savings from the proposal have been unrealistically high, we suspect that the real magnitude of the proposal's probable costs are not being appreciated. Past estimates of costs use Medicare experience as a guide. We believe this is inappropriate. In terms of traditional billing and financial practices, the private health care system was reasonably prepared to cooperate with Medicare's demands. The Veterans Administration with its history of public budgeting and financial systems is in a quite different position.

To our knowledge, the Veterans Administration has not yet developed its long promised billing procedure for our review. Furthermore, the direction the VA has proposed to take in past discussions, that is, billing an all-inclusive rate for both routine and ancillary services, will create considerable delay and cost for the VA when most bills are sent back by insurers to get necessary details for review and correct payment.

In sum, systems will have to be designed, trained people will need to be put in place to identify and verify insurance coverage, to send bills and respond to insurer requests, etc. This means either extra staff, which flies in the face of current administration policies, or it means cutting positions in patient care or elsewhere in the VA system.

We also have serious concerns about how our programs will apply to excess utilization in the VA system. For instance, a National Academy of Sciences study estimated that nearly half the patients in VA acute care beds were inappropriately placed. As another example, in investigating VA utilization problems, we found that the health data abstract used for medical records department reports to the VA Central office had a special category ABO -- Absent Bed Occupied -- for patients who leave the hospital but have their bed held for them -- by private sector standards, a very dubious practice. To meet our responsibilities to our subscribers, we have instituted a variety of cost containment programs that put pressure on private facilities to provide service economically. Consistent with our approach to providing efficient good quality care we are also trying to control the supply of hospital beds available to our subscribers. We believe this is an intelligent approach to cost containment. The special characteristics of the VA system would create considerable difficulties for us in applying utilization review and other programs to this unique entity.

Not only will the administrative complexities of this proposal create new and increased costs for the Veterans Administration, they will add costs for the private entities that would process and pay VA claims.

The projections of the fiscal impact of this proposal underestimate the total financial burden of the proposal by ignoring these non-federal cost increases.

This brings me to another concern with the bill. Whatever else this proposal involves, it does not involve health care cost containment.

The shift of costs from the federal budget to the private sector will increase both VA and third-party costs and will thereby increase total health care spending for the nation -- and it will do so without improving either the quality or the range of services provided to eligible veterans. In simple terms, no veteran will get any more or better care, but the government will have to hire and pay for more clerks and administrators. We will have to do the same.

The last time this proposal was considered, we prepared -- at the Committee's request -- estimates of the extra costs this proposal would mean for the Blue Cross and Blue Shield organization alone. Our estimate is that first year costs alone would be over $25 million (adjusted for one year's inflation). We suspect that much of this money would be spent to determine that benefit payments under contract were not justifiable. Added to our $25 million would be added costs for other carriers.

In this context, I would like to cite a recent study by the Congressional Budget Office of another government program. The CBO said that "a mere shifting of costs from Medicare to Blue Cross Plans or other third-party payers accomplishes nothing toward the ultimate goal of containing health care costs. It seems clear that the federal government should not be investing substantial resources merely to shift costs into the private sector." End of quotation.

We strongly concur with that observation with respect to Medicare, and we believe it applies equally well to the proposal before you related to VA health care services.

Our final concern with the bill is that we doubt that the proposal would stand a constitutional test. There is convincing precedent that a federal law impairing the obligation of existing guaranteed renewable insurance policies would constitute a deprivation of property without due process in violation of the due process clause of the Constitution.

Thank you for the opportunity to present our views, and if you have questions, I will do my best to answer them.

Chairman SIMPSON. Initially, let me say that your testimony completes an already rather voluminous bit of testimony that you gave last year, and we will go back into that very full testimony where you devoted a great deal of time and attention to that when we were reviewing Public Law 96-330.

And when considered in conjunction with that testimony and the testimony again presented thoroughly here and the testimony of other experts in the insurance field at the Committee's 1979 hearings on S. 759—I recall that some of you testified at that time, maybe all of you—it should give us a very solid basis for evaluating the third party reimbursement provision again. My question, and it has been touched on by each of you, is this: In your insurance, whether it be Blue Cross/Blue Shield or some other organization in the reputable health insurance field—and there are some in there that are not quite so reputable, and I know you don't represent that group—but in your application forms, is there any entry as to whether a person when he applies for your insurance, is a veteran or nonveteran?

Mr. COOLEY. No, Mr. Chairman, there is not.

Mr. HOLLANDER. There are none, to my knowledge, in any Blue Cross or Blue Shield form.

Chairman SIMPSON. So your premiums are not adjusted on the basis as to whether that is a fact or not, with the possibility that if a person checked the blank and said veteran you would think that fellow will probably go to a Veterans' Administration hospital?

Mr. COOLEY. I don't know that that would be a reasonable presumption.

Chairman SIMPSON. I don't know if it would be either, but I'm just asking.

Mr. HOLLANDER. Mr. Chairman, many of our subscribers are enrolled as part of their employment, and as such, we would have, one, no basis of knowing that, nor would we have any desire or interest in trying to ascertain that.

Mr. COOLEY. It would be true of the individual interest as well.

Chairman SIMPSON. Well, when we speak of third party reimbursement, we're talking only of the veteran with a non-service-connected disability. So we want to keep that in perspective, and that is a secondary mission of the Veterans' Administration, not the primary mission.

And so we come to the question, and it does continue to come up: Whether the Federal Government is indirectly subsidizing health insurance groups by providing health care to veteran members of that group.

I would ask you to each address this very briefly, if you could, since the very essence and the very basis of insurance, I think in any definition, is the equitable sharing of the risk and the cost and the benefits among those who are the insured. That's why I have some trouble with the figure about what this additional provision is going to cost you. Would you tell us that?

Mr. COOLEY. Mr. Chairman, I think there are two very positive responses to that. First, the exposure of confinements in the Veterans' Administration hospitals are not reflected in the premium rates of the various companies, nor in Blue Cross/Blue Shield, I believe. Because we exclude that exposure from our promise to pay.

So, therefore, whatever frequency there is in that area, we have no knowledge of it and it is not included in the base rate structure for the products.

Mr. BARRETT. Senator, we agree with you. When the Government said, in effect, we will pay for non-service-connected disabilities for this group of people, we then did not charge a premium for that coverage, have not collected any premiums.

Chairman SIMPSON. You adjusted your schedules actuarially at that time?

Mr. BARRETT. Yes, sir, downward. Our actuaries in the morbidity table from the beginning excludes this risk. We would be delighted, sir, if those people would stay in the private sector, the veterans with non-service-connected disabilities go to private hospitals, and we'll be glad to build that right in the premiums, like you say, where there's a risk there's a rate, we'll charge the premium and we'll extend the benefits.

Chairman SIMPSON. Well, I guess your response is helpful to me. That at the time then when the Federal Government decided to expand this coverage, you, as an industry then, immediately adjusted your actuarial tables.

Mr. BARRETT. Our concept, Senator, is based on the contract. We cover reimbursable expenses. And since the veteran would not have a reimbursable expense, then there would not be a contractural prerogative to pay.

Mr. HOLLANDER. To carry that one step further, to the extent to which the Veterans' Administration is effectively carrying out Public Law 96-330, those costs, and to the extent to which they were correct in their estimates, and we believe that for a variety of reasons that we've outlined in our testimony, that they are not correct, to that extent those increases—increased costs would already be reflected in our insurance premiums.

I must say, we have not identified a dramatic increase, because of that, it's not to say that there isn't some.

Further, Senator, our contracts, and it's an important part, I think, understanding the issue of difference between Veterans' Administration hospitals and the private sector. In the private sector we have responsibilities for our subscribers, moneys are expended.

That means, for example, that we have to be concerned with cost containment, we have to determine the medical necessity of services for our subscribers, we have to involve ourselves very strongly in dealing with excess hospital beds and other kinds of things.

The Veterans' Administration as a Government system could not participate in that kind of thing, and so the quid pro quo in terms of being a Blue Cross or Blue Shield subscriber couldn't be met. That is, the idea of our doing utilization review in veterans' hospitals I do not believe would be acceptable to the administration.

Chairman SIMPSON. I appreciate that very much. I appreciate your testimony, and thank you for it.

Mr. COOLEY. Thank you very much, sir.

Chairman SIMPSON. Now, I would submit for the record an Air Force physician recruiting letter and certain figures concerning the number of compensation to VA physicians requested here in the record at the time I was involved in questioning Dr. Schafer.

[The statement of the Air Force recruiting letter and compensation to VA physicians follow:]

Dear Doctor White:

Establishing a specialty practice is a costly, time-consuming task. A physician can end up spending many hours managing a practice instead of practicing medicine.

If you are a specialist who prefers to concentrate on patient care, you should consider Air Force medicine. It's an alternative that offers many special professional opportunities.

Air Force physicians serve at more than 115 health care facilities in the United States and overseas. These facilities range in size from small outpatient clinics and regional hospitals to a 1000-bed major medical center. No matter where you are assigned, you'll find a varied patient population — one that challenges the full range of your education and expertise.

The Air Force places considerable emphasis on continuing education and professional training. In addition, if qualified, you may compete for Air Force programs offered at military and civilian institutions.

All our physicians have liability protection under the Federal Tort Claims Act.

Consider the full range of Air Force pay and entitlements (listed in the enclosed Physicians' Comparative Income Chart). You may be surprised to find that our compensation is competitive with civilian incomes. We offer

- An excellent starting salary based on your education and experience
- On-base housing or a tax-free allowance
- Complete medical and dental care
- A non-contributory retirement program, for those who qualify
- A low-cost life insurance plan
- Various professional supplemental pays, based on education and experience.

Under our group practice system, you will have regular hours and leisure time to spend with your family and friends. You'll be entitled to 30 days of vacation with pay each year and your colleagues will take over your responsibilities while you're away.

For many families, the Air Force life style is an enriching experience. They take advantage of worldwide travel opportunities to learn about different people and cultures. A full range of recreational programs is offered right on base.

All of these advantages add up to a GREAT WAY OF LIFE for you and your family.

Let our medical placement team tell you more about Air Force opportunities in your specialty. Return the enclosed card today. Or you may contact your local Air Force recruiting office, listed in the telephone book under "U.S. Government." We'll be happy to give you all the details, with no obligation of course.

Sincerely,

Paul W. Myers

PAUL W. MYERS
Lieutenant General, USAF, MC
Surgeon General

AIR FORCE

A great way of life.

AIR FORCE PHYSICIAN'S COMPARATIVE INCOME CHART

Compare the value of Air Force pay and entitlements with your civilian income.

Examine the pay ranges in the chart below. The figures are based on the current Air Force compensation system. Your actual starting pay and rank will depend on your education and experience when you enter the Air Force.

AIR FORCE PHYSICIAN PAY

		Years of Service		
		Starting	8 Years	18 Years
Basic Air Force Pay and allowances	Min.	$24,473.76	$30,136.56	$39,075.36
	Max.	29,592.96	31,605.36	43,884.16
Special Incentive Pays	Min.	14,000.00	21,500.00	21,000.00
	Max.	17,500.00	25,172.00	24,372.00
Tax Advantage from non-taxable allowances for quarters and subsistance (based on standard deduction 4 exemptions)	Min.	1,859.00	2,340.00	2,983.00
	Max.	2,625.00	2,992.00	3,685.00
SUBTOTAL Air Force Pay	Min.	$40,332.76	$53,976.56	$63,058.36
	Max.	49,717.96	59,769.36	71,941.16

Your Air Force pay is all yours because the Air Force covers all expenses normally associated with managing a medical practice. Find out what this means to you by estimating what you spend each year on the following items:

CIVILIAN PRACTICE EXPENSES

Medical Care. Annual insurance premiums and out-of-pocket expenses for you and your family $_____

Dental Care. Annual costs for yourself _____

Overhead. Suite of offices, furnishings, equipment, supplies, salaries of employees, laboratories, accounting, maintenance, etc. _____

Malpractice insurance costs _____

Lost income while on 30 days vacation each year _____

Income insurance. Cost to provide an income insurance policy to equate to continuation of active duty pay during periods of temporary disability _____

New practice. Costs related to setting up a new practice, including purchase price of practice and relocation expenses _____

Continuing education. Cost of attending annual professional meetings and education sessions, including fees and travel expenses _____

Fellowship. Lost income while participating in civilian fellowship program (Air Force-sponsored fellows receive full pay and allowances) _____

SUBTOTAL – Civilian practice expenses _____

BENEFITS SUBTOTAL

ADD THE SUBTOTALS FOR PAY AND BENEFITS AND YOU HAVE THE TOTAL VALUE OF YOUR AIR FORCE COMPENSATION. This is the gross income necessary from your practice to match your salary and benefits as an Air Force physician.

COMPARISON OF AIR FORCE INCOME/CIVILIAN PRACTICE

SUBTOTAL Air Force Pay	Min.	$40,332.76	$53,976.56	$63,058.36
	Max.	49,717.96	59,769.36	71,941.16
SUBTOTAL – Civilian Practice Expenses		_____	_____	_____
Pay and Other advantages of Your Air Force Commission	Min.	_____	_____	_____
	Max.	_____	_____	_____

AN AIR FORCE EQUATION

PAY + BENEFITS = A GREAT WAY OF LIFE

Pay is the most tangible part of the Air Force compensation package, and it can be directly compared to your civilian income. But there are many Air Force advantages that come without price tags; their worth depends on how much you use them or how long you stay in the Air Force. Add the following benefits to your Air Force salary and you have a GREAT WAY OF LIFE FOR YOU AND YOUR FAMILY

20 YEAR RETIREMENT
If you qualify, you will receive a monthly retirement check, based on your rank and years of service. For example, the retired pay of a colonel with 20 years of service is $1940 per month. How much would you have to set aside to match this lifetime retirement income?

FEDERAL SURVIVOR BENEFITS
If you qualify to retire, you may elect to participate in the Federal Survivors Benefit Plan. For example, a retired lieutenant colonel with 20 years of service could elect to provide his survivors up to $1067 per month. How much would you have to set aside to match this guaranteed income for your qualified survivors?

DISCOUNT SHOPPING IN BASE EXCHANGES AND COMMISSARIES
According to official surveys, the average officer's family of four saves about 25 percent in these facilities each year for comparable goods in the civilian market place.

ON-BASE RECREATIONAL FACILITIES AND PROGRAMS
The entire family can use golf courses, gymnasiums, swimming pools and more.

WORLD WIDE TRAVEL OPPORTUNITIES
The government pays most expenses for permanent moves. You can also travel aboard military aircraft on a space available basis and take advantage of discount fares on major commercial airlines.

ELIGIBILITY FOR VETERANS' EDUCATIONAL BENEFITS

ELIGIBILITY FOR LOW DOWN PAYMENT, LOW INTEREST HOME LOANS

MEMBERSHIP IN OFFICERS' CLUBS

PLEASE PROVIDE ME WITH ADDITIONAL INFORMATION.
I understand it is in confidence and there is no obligation.

Date of Birth _____ **Male** ☐ **Female** ☐

Phone # _____

School _____ **Year Graduated** _____

Specialty _____

UNITED STATES AIR FORCE MEDICAL SERVICE

PLACE IN ENVELOPE PROVIDED

CDK011A

Number of Full-Time Physicians
Receiving Certain Levels of
Special Pay

	VACO	VA Field Facilities	Total
Physicians with Special Pay more than $22,500 But less than $27,500	26	26	52
Physicians with Special Pay at $27,500	15	1	16
TOTAL	41	27	68

The following chart compares both full-time and part-time physician and dentist remuneration both before and after enactment of P.L. 96-330.

PHYSICIANS AND DENTISTS PAY

	PL 94-123 (12/31/80)	PL 96-330 (3/31/81)
Total Number VA Physicians	11,045	11,081
Full time	6,624	6,704
Part time	4,421	4,377
Total Number VA Dentists	936	929
Full time	899	896
Part time	37	33
Maximum Special Pay:		
Physicians	13,500	27,500 1/
Dentists	6,750	12,500
PHYSICIANS:		
Average Base Pay		
Full time	$ 49,423	$ 49,166
Part time 2/	49,038	48,921
Average Special Pay		
Full time	7,491	17,210
Part time 2/	4,819	7,198
Average Total Pay		
Full time	56,914	66,376
Part time 2/	53,857	56,119

DENTISTS:

Average Base Pay		
Full time	46,056	45,993
Part time 2/	45,915	45,091
Average Special Pay		
Full time	3,223	5,825
Part time 2/	2,527	3,194
Average Total Pay		
Full time	49,279	51,818
Part time 2/	48,442	49,185

1/ Excluding special pay for geographic locations, maximum special pay is $22,500 for physicians and $10,000 for dentists. Very few physicians and dentists receive more special pay than these maxima.

2/ Figures reflect aggregation of all part-time employees to full-time equivalent salaries.

Chairman SIMPSON. Now, I believe that concludes our hearing. I appreciate your patience in a rather long proceeding, and I thank you for it. And the hearing is now concluded.

[Whereupon, at 12:35 p.m., the hearing was concluded.]

[The following written statements, letter, and mailgram were submitted for the record:]

STATEMENT OF ROBERT E. LYNGH, DIRECTOR
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
TO THE COMMITTEE ON VETERANS AFFAIRS
UNITED STATES SENATE
MAY 6, 1981

Mr. Chairman and Members of the Committee:

The American Legion appreciates the opportunity to present its views on four bills the Committee has for consideration.

We shall discuss the bills sequentially, though not in that order of priority.

S. 916 - A bill to amend title 38, United States Code, to eliminate provision of outpatient dental treatment for service-connected noncompensable dental conditions which are unrelated to service trauma or prisoner-of-war status.

The bill would amend section 612 of title 38, USC, by striking out clause (2) of subsection (b) in its entirety. The clause provides dental care for conditions shown to have been in existence at time of discharge from active duty if application for treatment is made within one year after such discharge.

The American Legion supported this benefit as an appropriate one for all those who served in the Vietnam Era. Experience has shown that in a wartime situation, with large numbers of persons mobilized, the military services do not thoroughly meet their responsibilities to the individual service member at time of discharge. This statement applies to several different elements of the discharge process, including the service member's entitlement to full dental care by the military service prior to discharge. Of course, it must also be said that in some instances the service

member foregoes dental treatment in the interest of speeding up the discharge process - in the anxiety to get out of the service. In view of these factors it was a proper benefit for the Veterans Administration to follow up and do for the veteran what should have been done while he or she was on active duty.

It is a fact that the situation that prevailed during the years of the Vietnam War no longer prevails. We are now in a peacetime period. The size of the military forces has been reduced accordingly. There is no longer a draft and the nation has an all volunteer military establishment. The point of all this is that there is presently no reason why any service member should be released from active duty without full dental service having been provided. Transfer to processing centers can be accomplished in sufficient time to have this done - and that is what should happen. There is no possible justification for the military services to evade the responsibility for providing full dental care to service members by telling them to go to the VA following separation. Congress should not let the services get away with that. Frankly, it is a cop-out that has been used by the military for many years, and through many generations of service personnel. Congress should strictly require the services to meet this particular responsibility.

If that were done it could relieve the Veterans Administration of a cost it is now required to assume.

Because of the fact that the nation is in peacetime and the services have every reason to meet their responsibilities to service members, The American Legion would not object to passage of legislation

as proposed in S. 916. We must stipulate that our position in this matter would likely change should the nation at any time undertake any degree of mobilization.

S. 918 - A bill to amend title 38, United States Code, to terminate the authority for the pursuit of flight training programs by veterans and for the pursuit of correspondence training by veterans, spouses, and surviving spouses, and for other purposes.

Through the years of GI Bill programs, The American Legion has consistently supported flight and correspondence courses for those veterans who have proper reasons for using them. Despite the abuses that have been cited from time to time, the courses have provided legitimate flight training to veterans seeking to make flying a vocational objective; and the correspondence courses have made education and training available to veterans who, for various reasons have not been able to accomplish such training or education in an institutional setting.

Admittedly, opportunity for abuse exists by the nature of flight and correspondence training. The American Legion has been concerned about that and has supported all VA efforts to monitor both flight training and correspondence courses to eliminate abuse.

However, it has been the view of this organization that the potential for abuse should not be used as a reason for summarily eliminating access to either flight training or correspondence training for those veterans who have proper need to have recourse to them. The American Legion continues to hold that view.

There are available estimates that elimination of flight and correspondence courses could save some $32 million for the fiscal year. We understand full well the Congressional desire to achieve savings in all Federal expenditures toward the end of balancing the Federal Budget. We have pledged to work with both the Legislative and Executive Branches to help achieve that goal.

However, the worthy goal does not in itself justify the abandonment of programs of readjustment that were established for the essential reason of facilitating the transition of the service member with service during a period of active hostilities back to civilian life. Flight and correspondence courses are part of the total readjustment programs provided by law for veterans who have need of them. The basic principle on which the readjustment programs are established has not changed. Readjustment programs are part of the nation's obligation to its defenders.

Because of that fact, The American Legion cannot support the enactment of S. 918.

S. 919 - A bill to limit payment of special pay authorized eligible Veterans Administration physicians and dentists under section 4118, title 38, United States Code, and for other purposes.

S. 919 has been introduced at the request of the Administration. In various statements made in support of the proposed legislation, the Administration has observed that the special and incentive special pay provided for physicians and dentists in the employ of the Veterans Administration by Public Law 96-330 will result in salary increases of 25 to 36 percent and make their total pay significantly higher than that of any other group of Federal physicians.

S. 919 would provide that no more than 12 per centum of the total amount appropriated for remuneration of physicians and dentists in the VA Department of Medicine and Surgery shall be expended for special pay under section 4118 of the title.

The statement made by the Administration in support of S.919 is patently untrue. The Administration seems to have in mind the physicians serving in the uniformed services, mostly the military. Military physicians are in the main younger than VA physicians; or to put it another way, VA physicians are for the most part further along in their medical careers than are military physicians. This certainly enhances their proficiency and thus increases their value to the Government. To support this statement there is the fact that more than half the physicians in the VA Department of Medicine and Surgery are board certified. That and the affiliation with the nation's medical schools has given VA a general quality of physicians unsurpassed in any other health care delivery program in this country. It must also be pointed out that military physicians have a series of benefits, generally available to military personnel, that are not available to VA physicians. Full medical care for the military physician and his entire family, is only one example, along with PX and commissary privileges, among others.

It is an incontrovertible fact that the quality and quantity of physicians in VA service has been greatly jeopardized in recent years by the lagging compensation levels that have prevailed in the Department of Medicine and Surgery. Most recently the situation became critical, leading Congress to devise legislation in 1980 to

address the crisis. Without remedial legislation, VA faced the prospect of wholesale departures of highly qualified physicians from VA service. Such an event would have had a devastating effect on the VA medical care program for the nation's veterans.

Facing up to its responsibilities, Congress, in 1980 developed legislation that became known as Public Law 96-330, the Veterans Administration Health-Care Amendments of 1980. The Committees of Congress worked very hard to develop legislation that would precisely address the problem of compensation for health professionals in VA service. Exhaustive hearings were held in consideration of the draft legislation. The American Legion, among many other witnesses, appeared and gave its views.

The legislation was passed by Congress in August, 1980, and vetoed by President Carter. On August 26, 1980, PL 96-330 became law, having passed both Houses by more than a two thirds majority. The passage of the Act over Presidential veto is highly significant, in that it attests to the importance Congress attached to the legislation.

In view of all of the above, the importance of PL 96-330 to the future of the VA medical care program is clearly certified.

Now, a new Administration comes along and promptly questions the wisdom of Congress by proposing to cap the levels of special and incentive special pay provided by the legislation. Why? Nothing has happened since last August to change the economic situation in the country that gave rise to the problem of compensation for VA physicians. What has happened is that the new Administration, in its haste to present proposals to Congress to reduce Federal expenditures,

has made a non-thorough evaluation of the situation and proposed to limit the special and incentive special pay provided for in PL 96-330. There is simply no justification for this. It would undo everything the 96th Congress did following careful study of a certifiedly critical problem - the maintenance of highly qualified physicians in VA service to care for sick and disabled veterans. On the basis of this unconscionable proposal, that would again threaten a wholesale loss of physicians from VA service, the new Administration does not seem unduly concerned about the welfare of sick and disabled veterans.

The American Legion is shocked and dismayed at the Administration's proposal as set forth in S. 919. This organization is categorically opposed to passage of the bill, and petitions Congress to reject it.

With all the problems that still exist in maintaining the VA medical care program for veterans, we sincerely hope that program will not be further endangered by passage of such unwise and unjustifiable legislation as S. 919.

S. 920 - A bill to amend title 38, United States Code, to revise and clarify eligibility for reimbursement of expenses of travel for Veterans Administration health care, and for other purposes.

The bill would amend section 111(e)(2) of the title to provide that except for veterans being treated for a service-connected disability, or for veterans with a service-connected disability rated at 50 per centum or more, beneficiaries shall not be reimbursed for the first $5 of the cost of travel to and from a VA facility.

According to figures made available from the Veterans Administration, the legislation would result in savings of $8 million during Fiscal Year 1981, and $35 million during Fiscal Year 1982.

The projected savings are attractive in the effort to reduce Federal expenditures, and do not at first glance seem an excessive amount to require of the beneficiary. However, the problem The American Legion has with the proposed legislation is that its effect would fall first on that precise category of beneficiary that is in greatest need - the elderly and the poor - those who are most in need of and most deserving of the compassionate attention of the Federal Government - and here we are talking about, of course, old and poor veterans.

It is an established fact that the clientele of the VA medical care program, aside from the service-connected, are elderly and poor veterans. Most of these subsist on minimal Social Security payments, supplemented in some instances by veterans pension. Many of them live at the bare edge of dire poverty. They do not really seem to be the ones at whose expense the Federal Government should balance its budget. Because they are veterans, they have a special claim on that same Federal Government.

The fact is that while $5 per person, per trip does not seem like a great amount to anyone who is healthy and employed, it is and can be a considerable sum to persons whose subsistence level is marginal at best. It is possible that a poor and elderly beneficiary might be required to make several trips per month to a VA Medical Center to maintain the treatment level for the disabilities involved.

At $5 per trip, the cost factor accordingly escalates.

Because of its concern for the social as well as the medical well-being of veterans who are old and poor, The American Legion cannot support this bill. It is the earnest petition of this organization that Congress look elsewhere in its search for areas of recovery from Federal expenditures.

This completes our comment on the bills now for consideration. Again, The American Legion thanks the Committee for the opportunity to offer comment.

STATEMENT OF THE NATIONAL ASSOCIATION OF LIFE COMPANIES IN OPPOSITION TO S. 1058

The National Association of Life Companies ("NALC") is submitting this testimony to the Senate Committee on Veterans Affairs to express its strong opposition to S. 1058. This legislation in essence would require health insurers to pay hospital, nursing home or out-patient medical care costs for services furnished by the Veterans Administration to insured veterans' for non-service-connected disabilities. Currently, health insurance policies generally do not provide benefits for such care because Veterans do not have to pay for these services. Health insurance premiums accordingly do not include an amount to cover the costs of such care.

NALC, which is headquartered in Atlanta, Georgia, represents approximately 250 insurance companies, many of which underwrite both life and health policies. Most NALC members are small and medium sized companies that find it relatively more difficult than larger companies to bear new costs and burdens caused by new government regulations such as S. 1058.

NALC opposes S. 1058 because, among other things, it is based on totally inadequate data, and it would:

- o provide largely illusory cost savings;
- o raise health care costs and insurance premiums for veterans and other consumers;
- o create costly implementation problems due to the VA's noncompatible billing system and VA's reluctance to submit to utilization review procedures necessary to contain health care costs;

- o unconstitutionally impair existing insurance contracts which are subject to renewal;
- o violate the principle of the McCarran-Ferguson Act; and
- o be discriminatory and contrary to basic insurance practices.

Lack of Credible Supporting Data

Although S. 1058 is touted as a great cost savings measure, it is hardly an ingenious new budget cutting idea. Similar proposals have been made in the 91st through 96th Congresses. Past hearings have documented in great detail the numerous problems that exist with this legislation, particularly the fact that there simply is no adequate factual data concerning its overall cost impact. Only last year, this Committee provided an excellent summary of this legislation's major deficiencies in its report on S. 2534, the VA Health Care Program Amendments of 1980. Your report noted:

> "Thus, in the Committee's view, it is essential to undertake a further investigation of the total cost impact of health-insurance reimbursement legislation. For such investigation, an adequate data base must be developed in order to determine not only the number of veterans with health-plan coverage who are utilizing VA health-care facilities but also whether that coverage would prove to be a source of recoveries. In addition, a study of the legislation's impact on health insurance premiums and VA and health insurance administrative costs is necessary. The Committee thus recommends against any action on health-insurance reimbursement legislation pending the completion of such studies."

This Committee's recommendation for such studies was not followed, and it appears that the indepth factual investigation concerning the effects of this legislation, which this Committee recognized as necessary before enacting it, has not been made.

Illusory Cost Savings and Higher Insurance Premiums

Although detailed credible studies are not available to support the alleged cost savings from S. 1058, NALC believes that these alleged savings are largely illusory for several obvious reasons:

- Inflationary new costs would be added to the total health care costs involved. For example, VA officials acknowledged in the last Congress that it would cost hundreds of millions of dollars to institute a new health care information system which insurers said would be necessary to document and justify the VA's charges. Moreover, both the VA and insurers probably would have substantial new legal costs due to litigation over the billing procedures and the impairment of contracts issue discussed below. Insurers also would have additional substantial administrative costs and higher premium taxes which would increase total health care costs without necessarily improving the quality or quantity of care provided. NALC believes that this Committee's conclusion last May concerning such new costs is equally applicable today:

  > "[A]ny such inflationary increase in total health care costs can not be justified at this time."

- The bill really simply would shift costs from the federal government to individual veterans and other consumers in the form of higher insurance premiums that would

be necessary to reflect the higher cost of these new insurance benefits. This "rob Peter to pay Paul" concept does not produce real cost savings.

- o Moreover, if the VA is properly implementing Section 401 of P.L. 96-330, there should be few costs to recover from insured veterans. That law requires in essence that the VA determine if a veteran who is seeking care for a non-service-connected disability has health insurance to cover the cost of such care, and if so, to direct the veteran to an available non-VA community health care facility. Thus, veterans with private health insurance generally should no longer be receiving VA care for such disabilities.

VA's Noncompatible Billing System and Apparent Reluctance to Submit to Utilization Review

As has been pointed out in past hearings, the VA's per diem billing procedure is not compatible with insurance industry procedures. The latest changes proposed in this regard in S. 1058 still appear to be quite inadequate. This VA billing system would require insurers to pay an average cost for types of service instead of the actual cost for the insured individual. This is totally contrary to insurance reimbursement practices and often would be quite inequitable. Insurers must have itemized billing data to justify charges for services actually performed.

NALC believes that such data is essential if health care costs are to be contained. Without it there would be inevitable claims problems concerning unnecessary services, unduly lengthy hospital stays, etc. In addition, it must be remembered that it is very questionable whether the VA is

willing to submit to the utilization review procedures that insurers require of private health facilities. These audit measures are essential if health care costs are to be controlled.

Moreover, as noted earlier, insurers could be expected to litigate claims which did not contain the proper itemization. This would, of course, increase costs and slow or prevent reimbursement to the VA. However, it also could cost hundreds of millions of dollars for the VA to install the necessary billing system.

Unconstitutional Impairment of Contract Rights

S. 1058 applys to insurance contracts renewed after the bill's effective date. Many health insurance policies contain guaranteed renewable and noncancellable clauses which give the insured the sole option to renew the policy. The insurance company cannot prevent this option from being exercised. Since this bill appears to mandate new coverage for such policies, it would deprive insurers of property without due process of law and therefore, we believe, would be unconstitutional.

Violation of the Underlying Principle of the McCarran-Ferguson Act

As the Committee is aware, the McCarran-Ferguson Act establishes the general policy that the business of insurance is to be regulated by the various states. Accordingly, it is for each state to decide what type of health insurance coverage should be mandatory. By mandating coverage for VA care, S. 1058 clearly violates this basic policy.

S. 1058 is Discriminatory and Contrary to Sound Insurance Practices

It is an elementary concept that insurance only pays for actual expenses for which the insured would have an obligation to pay if there was no insurance coverage. S. 1058 would destroy this sound reimbursement concept by imposing an obligation on the insurer to pay for VA provided care for which the insured has no duty to pay in the absence of insurance. This unfairly discriminates against the insured veteran. It also is discriminatory because it seeks reimbursement only to the extent of insurance coverage and makes no distinction between higher and lower benefit policies. Moreover, it does not apply to the self-insured, HMO's or recoveries from Medicare or Medicaid.

Conclusion

NALC believes that S. 1058 is an ill-conceived and unjustified proposal that should not be passed. It would merely shift existing costs of VA care to the private sector while adding inflationary new administrative and other expenses to total health care costs. These additional costs would be particularly burdensome to the small and medium sized companies within NALC's membership and for veterans and other policyholders who would have to pay higher insurance premiums.

This legislation also is contrary to sound insurance practices and the principle of the McCarran-Ferguson Act, is unfairly discriminatory and impairs insurers' contractual rights.

84-082 O—81——17

Accordingly, NALC strongly urges that this Committee reject S. 1058. If insured veterans are still being treated for non-service-connected disabilities by the VA, it is far more advisable for this Committee to ensure that the mandate of Section 401 of P.L. 96-330 is enforced by requiring that the VA direct veterans who have health insurance to obtain medical treatment in private community health care facilities instead of in VA facilities.

AMERICAN MEDICAL ASSOCIATION
1776 K STREET, N. W. • WASHINGTON, D. C. 20006 • PHONE (202) 857-1300 • TWX 710-822-9409

AMA WASHINGTON
JOHN S. ZAPP, D.D.S.
Director

May 6, 1981

The Honorable Alan K. Simpson
Chairman
Veterans' Affairs Committee
410 Russell Senate Office Building
United States Senate
Washington, D.C. 20510

RE: S. 919; A Bill to Limit Payment of Special Pay Authorized Eligible Veterans' Administration Physicians and Dentists.

Dear Senator Simpson:

The American Medical Association takes this opportunity to express its opposition to S. 919, a bill to limit the payment of special pay to eligible Veterans' Administration physicians and dentists.

The issue of special pay for VA physicians and dentists was clearly decided last year when the 96th Congress enacted P.L. 96-330 by overriding the President's veto of the VA Health Care Amendments of 1980 by a vote of 401 to 5 in the House and by a margin of 84 to 0 in the Senate. S. 919 would substantially limit the availability of special pay to VA physicians and dentists and would effectively undo the benefits of P.L. 96-330.

The stated purpose of P.L. 96-330 is "to promote the recruitment and retention of physicians, dentists, nurses, and other health care personnel in the Department of Medicine and Surgery of the Veterans' Administration, and for other purposes." S. 919 would hinder that purpose by allowing only 12% of the total amount appropriated for remuneration of physicians and dentists in the VA to be expended for special pay. Passage of S. 919 would definitely have an adverse impact upon the ability of the VA to recruit and retain an adequate physician staff.

Retention of personnel was the key item behind the passage of P.L. 96-330, and any retrenching of the special pay programs for VA physicians and dentists would necessarily work against attracting and retaining qualified personnel within the VA health care system. The Report of the House Veterans' Affairs Committee (House Report 96-958) clearly stated the need for the special pay provision.

> Witnesses testifying before the Committee have indicated that over seventy percent of all offers of full-time VA employment were rejected by physician candidates. The average time required to recruit

a full-time physician was almost ten months, with some scarce specialties requiring over twenty months.

In addition, the VA is experiencing extreme problems with full-time physicians converting to part-time. 10,324 physicians are currently employed. Of this number, 3,997 are part-time. In 32 VA hospitals, the majority of physicians are part-time. At seven hospitals, the Chief of staff is a part-time physician.

An additional concern that lead to the passage of P.L. 96-330 was the maintenance of a qualified staff to help ensure medical care of high quality. As evidenced by the floor debate prior to the Congressional action overturning the President's veto, this was a paramount concern of the 96th Congress. Indeed, the debate characterized this legislation as being "absolutely critical to affording veterans the medical care they both deserve and require." These concerns are as real today as they were last August when Congress overturned President Carter's veto.

VA physicians are tied to the civil service pay scale, and special pay available to those physicians has remained constant since 1975. In the past six years, the country has witnessed staggering inflation that has significantly outdistanced the pay available to a physician within the VA. P.L. 96-330 could serve to rectify this inequity, and it would also bring the VA physicians' pay more into line with pay available to other federally-employed physicians. The AMA firmly believes that all physicians in federal employ should receive an equitable and comparable salary and benefits. Passage of S. 919 would be a step away from this goal.

If S. 919 is passed, there will be no assurance of continuity in VA physician pay from year to year, and this will undoubtedly affect recruiting and retaining of VA physicians. No specific special pay amounts will be set, and the amount of special pay that an individual would be eligible to receive could actually fluctuate from year to year based on the amount of the appropriations.

The AMA is well aware of the need to pare the federal budget and to gain a firm measure of control over the nation's economy. However, we must caution the Committee against taking an action that could jeopardize continuity of care and quality of services provided to veterans.

The AMA urges that S. 919 not be reported by the Committee on Veterans' Affairs to the Senate. Passage of such a bill can only have the long-term affect of diminishing the quality of health care available to our nation's veterans.

Very truly yours,

James H. Sammons

James H. Sammons, M.D.

JHS:jg

STANLEY G KORENMAN
1510 NORTH AMALFI
PACIFIC PALISADES CA 90272

western union Mailgram

4-0691328121 05/01/81 ICS IPMRNCZ CSP WSHB
2138912335 MGM TDRN SEPULVEDA CA 274 05-01 0642P EST

CAMERA COPY—OFFSET

THE HONORABLE ALAN K SIMPSON
CHAIRMAN SENATE VETERANS AFFAIRS COMMITTEE
U.S. SENATE
WASHINGTON DC 20510

SUBMITTED AS A STATEMENT FOR THE RECORD FOR THE COMMITTEE ON VETERANS AFFAIRS HEARING MAY 6 ON COST SAVINGS LEGISLATION.

I SHOULD LIKE TO SUPPORT A FULL RETURN OF FUNDING TO THE DEPARTMENT OF MEDICINE AND SURGERY OF THE VETERANS ADMINISTRATION. DM&S HAS BEEN UNDER SERICUS FISCAL CONSTRAINT FOR A NUMBE OF YEARS AND WOULD BE SERIOUSLY DAMAGED BY A REDUCED APPROPRIATION OF $325 MILLION DOLLARS. ACCESS TO QUALITY HEALTH CARE IS A MAJOR BENEFIT CONVEYED BY ALL OF US IN APPRECIATION OF THE SERVICES OF VETERANS TO OUR COUNTRY. AS THE GREAT BULK OF WORLD WAR TWO VETERANS AGE AND LEAVE EMPLOYMENT THEIR HEALTH NEEDS WILL ONLY INCREASE AND THE VA SYSTEM IS THEIR PROMISED SYSTEM OF MAJOR MEDICAL CARE, IT MUST BE PRESERVED. OTHER SOCIAL SUPPORT SYSTEMS OF HEALTH CARE ARE FACING SEVERE FISCAL CONSTRAINTS & MEDICALLY NEEDY VETERANS WILL HAVE NO RESOURCE IF ACCESS TO VA SERVICES IS REDUCED.

AN ATTACK ON THE PHYSICIANS PAY BILL SEEMS UNJUSTIFIED. NOT ONLY WAS THE BILL PASSED BY AN OVERWHELMING MAJORITY OF THE CONGRESS, BUT THE VOTE TO OVERRIDE THE PRESIDENTIAL VETA WAS EVEN GREATER. ALREADY THE PHYSICIAN AND NURSE RECRUITING AND RETENTION PROBLEMS OF THE SYSTEM HAVE BEEN AMELIORATED. A REDUCTION BY ANY ORGANIZATION OF COMPENSATION HONESTLY ATTAINED WOULD SEVERELY TEST ITS CREDIBILITY AS AN EMPLOYEE IN THE EYES OF BOTH THOSE AFFECTED AND THE UNAFFECTED. THAT IS RELEVANT TO THE FEDERAL GOVERNMENT AND PARTICULARLY TO THE CONGRESS.

THANK YOU FOR YOUR SINCERE INTEREST IN THE PROBLEMS OF THE VETERAN.

SINCERELY YOURS,

STANLEY G KORENMAN MD PRESIDENT ELECT AVACOM

18142 EST

MGMCOMP MGM

5241 (R1/78)

TO REPLY BY MAILGRAM, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

APPENDIX A

97TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPORT
No. 97-208

NO. 1

OMNIBUS BUDGET RECONCILIATION ACT OF 1981

CONFERENCE REPORT

[To accompany H.R. 3982]

JULY 29, 1981.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON: 1981

82-376 O

97TH CONGRESS | HOUSE OF REPRESENTATIVES | REPORT
1st Session | No. 97-208

OMNIBUS BUDGET RECONCILIATION ACT OF 1981

JULY 29, 1981.—Ordered to be printed

Mr. JONES of Oklahoma, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 3982]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 3982) to provide for reconciliation pursuant to section 301 of the first concurrent resolution on the budget for the fiscal year 1982, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SHORT TITLE

SECTION 1. This Act may be cited as the "Omnibus Budget Reconciliation Act of 1981".

TABLE OF CONTENTS

Title I. Agriculture, forestry, and related programs.
Title II. Armed services and defense-related programs.
Title III. Banking, housing, and related programs.
Title IV. District of Columbia.
Title V. Education programs.
Title VI. Human services programs.
Title VII. Employment programs.
Title VIII. School lunch and child nutrition programs.
Title IX. Health services and facilities.
Title X. Energy and energy-related programs.
Title XI. Transportation and related programs.
Title XII. Consumer product safety and communications.

Title XIII. International affairs.
Title XIV. Department of Interior and related programs.
Title XV. Department of Justice and related provisions.
Title XVI. Maritime and related programs.
Title XVII. Civil service and postal service programs; governmental affairs generally.
Title XVIII. Water resource development and economic development programs.
Title XIX. Small business.
Title XX. Veterans' programs.
Title XXI. Medicare, medicaid, and maternal and child health.
Title XXII. Federal Old-Age, Survivors, and Disability Insurance program.
Title XXIII. Public assistance programs.
Title XXIV. Unemployment compensation.
Title XXV. Trade adjustment assistance.
Title XXVI. Low-income home energy assistance.
Title XXVII. Health professions.

PURPOSE

SEC. 2. It is the purpose of this Act to implement the recommendations which were made by specified committees of the House of Representatives and the Senate pursuant to directions contained in part A of title III of the first concurrent resolution on the budget for the fiscal year 1982 (H. Con. Res. 115, 97th Congress), and pursuant to the reconciliation requirements which were imposed by such concurrent resolution as provided in section 310 of the Congressional Budget Act of 1974.

* * * * * * *

TITLE XX—VETERANS' PROGRAMS

BURIAL BENEFITS

SEC. 2001. (a)(1) Section 902(a) of title 38, United States Code, is amended by striking out "Where a veteran dies—" and clauses (1) and (2) and inserting in lieu thereof "When a veteran dies who was in receipt of compensation (or but for the receipt of retirement pay would have been entitled to compensation) or in receipt of pension,".

(2) The amendment made by paragraph (1) shall take effect with respect to deaths occurring after September 30, 1981.

(b) Section 903(b) of such title is amended by inserting "who was discharged from the active military, naval, or air service for a disability incurred or aggravated in line of duty, or who is a veteran of any war" after "such subsection,".

OUTPATIENT DENTAL TREATMENT

SEC. 2002. (a) Section 612(b) of title 38, United States Code, is amended—

(1) in clause (2)—

(A) by striking out "and (B)" after "service" and inserting in lieu thereof a comma and the following: "(B) if the veteran had served not less than 180 days of active military, naval, or air service immediately before such discharge or release, (C)";

(B) by striking out "within one year" both places it appears and inserting in lieu thereof "within 90 days"; and

(C) by striking out the semicolon and inserting in lieu thereof a comma and the following: "and (D) if the veteran's certificate of discharge or release from active duty does not bear a certification that the veteran was provided,

within the 90-day period immediately before the date of such discharge or release, a complete dental examination (including dental X-rays) and all appropriate dental services and treatment indicated by the examination to be needed;"; and

(2) by inserting before the second sentence the following: "The Secretary concerned shall at the time a member of the Armed Forces is discharged or released from a period of active military, naval, or air service of not less than 180 days provide to such member a written explanation of the provisions of clause (2) of this subsection and enter in the service records of the member a statement signed by the member acknowledging receipt of such explanation (or, if the member refuses to sign such statement, a certification from an officer designated for such purpose by the Secretary concerned that the member was provided such explanation).".

(b)(1) The amendments made by clauses (1)(A), (1)(C), and (2) of subsection (a) shall take effect on October 1, 1981.

(2) The amendment made by clause (1)(B) of subsection (a) shall apply only to veterans discharged or released from active military, naval, or air service after September 30, 1981.

TERMINATION OF EDUCATIONAL ASSISTANCE FOR PURSUIT OF FLIGHT TRAINING

SEC. 2003. (a)(1) Section 1631(c) of title 38, United States Code, is amended by striking out "either" and "or a program of flight training".

(2) Section 1641 of such title is amended to read as follows:

"§1641. Requirements

"The provisions of sections 1663, 1670, 1671, 1673, 1674, 1676, 1683, and 1691(a)(1) of this title and the provisions of chapter 36 of this title (with the exception of sections 1777, 1780(c), and 1787) shall be applicable to the program.".

(b)(1) Section 1662(c) of such title is amended by striking out "or flight training within the provisions of section 1677 of this chapter,".

(2) Section 1673(b) of such title is amended by striking out "Except as provided in section 1677 of this title, the" and inserting in lieu thereof "The".

(3)(A) Section 1677 of such title, relating to flight training, is repealed.

(B) The table of sections at the beginning of chapter 34 of such title is amended by striking out the item relating to section 1677.

(4) Section 1681 of such title is amended—

(A) in subsection (b), by striking out "or a program of flight training"; and

(B) by striking out subsection (c) (including the center heading preceding such subsection).

(5) Section 1682(a)(1) of such title is amended by striking out "1677 or".

(c) Section 1780(a) of such title is amended by striking out "or a program of flight training".

REDUCTION IN LEVEL OF EDUCATIONAL ASSISTANCE FOR CORRESPONDENCE COURSES

SEC. 2004. (a) Section 1786(a)(1) of title 38, United States Code, is amended by striking out "70 percent" and inserting in lieu thereof "55 percent".

(b) The amendment made by subsection (a) shall not apply to correspondence lessons completed and submitted to the educational institution concerned before October 1, 1981.

EDUCATION LOAN PROGRAM

SEC. 2005. (a) Section 1631 of title 38, United States Code, is amended by striking out subsection (d).

(b) Section 1686 of such title is amended by inserting "to whom section 1662(a)(2) of this title is applicable" after "eligible veteran".

(c) Section 1737 of such title is amended by inserting a comma and "before October 1, 1981," after "shall be entitled".

(d) Section 1798(a) of such title is amended—

(1) by striking out "Each" and inserting in lieu thereof "(1) Subject to paragraph (2) of this subsection, each"; and

(2) by adding at the end the following new paragraph:

"(2) Except in the case of a veteran to whom section 1662(a)(2) of this title is applicable, no loan may be made under this subchapter after September 30, 1981.".

EFFECTIVE DATES WITH RESPECT TO FLIGHT TRAINING

SEC. 2006. (a) Except as provided in subsection (b), the amendments made by sections 2003 and 2005 shall take effect on October 1, 1981.

(b) The amendments made by such sections shall not apply to any person receiving educational assistance under section 1677 of title 38, United States Code, as such section was in effect on August 31, 1981, for the pursuit of a program of education (as defined in section 1652(b) of such title) in which such person was enrolled on that date, for as long as such person is continuously thereafter so enrolled and meets the requirements of eligibility for such assistance for the pursuit of such program under the provisions of chapters 34 and 36 of such title, as in effect on that date.

* * * * * * *

APPENDIX B

97TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
No. 97-208

NO. 2

OMNIBUS BUDGET RECONCILIATION ACT OF 1981

CONFERENCE REPORT

[To accompany H.R. 3982]

JULY 29, 1981.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

82-376 O

WASHINGTON : 1981

97TH CONGRESS | HOUSE OF REPRESENTATIVES | REPORT
1st Session | No. 97-208

OMNIBUS BUDGET RECONCILIATION ACT OF 1981

JULY 29, 1981.—Ordered to be printed

Mr. JONES of Oklahoma, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 3982]

JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 3982) entitled, "An Act to Provide for Reconciliation Pursuant to Section 301 of the First Concurrent Resolution on the Budget for Fiscal Year 1982," submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report:

The Senate amendment to the text of the bill struck out all of the House bill after the enacting clause and inserted a substitute text.

The House recedes from its disagreement to the amendment of the Senate with an amendment which is a substitute for the House bill and the Senate amendment.

The joint statement of managers which follows was prepared by the Committees on Jurisdiction, but is arranged by title of the conference agreement. A brief overview by the Committees on the Budget appears at the beginning.

STATEMENT OF BUDGET COMMITTEE MANAGERS

By approving the First Budget Resolution for Fiscal Year 1982, which included reconciliation instructions, Congress continued and expanded its efforts to maintain control over Federal expenditures. Those reconciliation instructions directed fourteen Senate and fifteen House committees to report legislation achieving uprecedented reductions which impact on Federal spending during fiscal years 1981, 1982, 1983 and 1984.

The provisions of the Omnibus Budget Reconciliation Act of 1981 are the culmination of the work of the committees in complying with the reconciliation directives. Real savings have been achieved which compare favorably with the reconciliation bills as passed by the House and Senate.

The managers for the Committees on the Budget wish to acknowledge the extraordinary efforts of the conference participants, particularly the chairmen and ranking Members of the House and Senate committees, in achieving these savings.

What follows in this statement of managers is a title by title explanation of the conference agreement. This explanation has been prepared by the committees which determined the provisions of the conference agreement which are in their separate jurisdictions.

* * * * * * *

TITLE XX—VETERANS' PROGRAMS

1. Burial benefits

House bill.—The House bill would limit payment of non-service-connected burial benefits—$300 for burial and funeral expenses and a $150 plot allowance—to those cases in which the deceased veteran's annual income, including spouse's income, does not exceed $20,000. This limitation would be effective only with respect to deaths occurring during fiscal years 1982 through 1984.

Senate amendment.—The Senate amendment would generally limit the payment of both benefits to those cases in which the deceased veteran was entitled to receive Veterans' Administration service-connected disability compensation for a disability rated at 30 percent or more in the cases of deaths occurring in the last three months of fiscal year 1981, for a disability rated at 20 percent or more in the cases of deaths occurring in fiscal year 1982, and for any compensable disability in the cases of deaths occuring in fiscal year 1983 and thereafter; and to those cases in which the veteran was entitled to receive VA pension or met the income and wartime service eligibility requirements for pension. (Other pension eligibility requirements relate to disability, age, and duration of service.)

Conference agreement.—The conference agreement would limit, effective October 1, 1981, the payment of the $300 burial and funeral expenses benefit, which would be payable thereafter only in the cases of deceased veterans who were entitled to receive VA compensation or pension. (Pursuant to present section 3021(a) of title 38, United States Code, a veteran would be deemed to have been so entitled if the evidence on file at date of death was sufficient to support a determination of entitlement.) The $150 plot allowance would not be affected. The Senate recedes with respect to fiscal year 1981 and the House recedes with respect to having the limitation apply only during fiscal years 1982 through 1984.

This provision is estimated to save $75.2 million in budget authority and outlays in fiscal year 1982, $79.8 million in budget authority and outlays in fiscal year 1983, and $84.4 million in budget authority and outlays in fiscal year 1984.

2. Outpatient dental benefits

House bill.—The House bill would terminate, effective October 1, 1981, benefits for outpatient treatment for certain non-compensable service-connected dental conditions.

Senate amendment.—The Senate amendment would, effective October 1, 1981, restrict eligibility for these dental benefits in three ways. First, the period of time after discharge within which the veteran must apply would be reduced from one year to six months. Second, a 180-day minimum service requirement would be imposed. Third, these benefits would not be provided to a veteran who had been certified by the armed service concerned as having received a complete dental examination and all indicated treatment during the 90 days immediately prior to discharge.

Conference agreement.—The House recedes with an amendment reducing the period of time after discharge within which the veteran must apply to three months. In addition, the Secretary of the service concerned would be required to provide the servicemember, at the time of discharge from a period of active duty of not less than 180 days, with actual notice (verified by a statement, signed by the servicemember—or if the servicemember refuses to sign, a certification by an authorized official—to be made a part of his or her permanent military records) of the new three-month limitation.

This provision is estimated to save $17.7 million in budget authority and outlays in fiscal year 1982, $18.9 million in budget authority and outlays in fiscal year 1983, and $20.3 million in budget authority and outlays in fiscal year 1984.

3. Flight training

House bill.—The House bill would terminate, effective October 1, 1981, GI Bill education benefits for the pursuit of flight training.

Senate amendment.—No provision.

Conference agreement.—The Senate recedes with an amendment providing that those who are enrolled in approved vocational flight training programs on August 31, 1981, may continue to use their benefits for the purpose of such programs as long as they remain continuously enrolled.

This provision is estimated to save $14.1 million in budget authority and outlays in fiscal year 1982, $20 million in budget authority and outlays in fiscal year 1983, and $17 million in budget authority and outlays in fiscal year 1984.

4. Correspondence training

House bill.—The House bill would terminate, effective October 1, 1981, GI Bill education benefits for the pursuit of training by correspondence courses.

Senate amendment.—No provision.

Conference agreement.—The conference agreement would reduce, from 70 percent to 55 percent, effective October 1, 1981, the portion of the cost of correspondence training paid by the Veterans' Administration. The 70 percent rate would apply only to lessons completed and submitted (that is, postmarked, if submission is by mail) before October 1, 1981.

This provision is estimated to save $3.2 million in budget authority and outlays in fiscal year 1982, $3 million in budget authority and outlays in fiscal year 1983, and $2.6 million in budget authority and outlays in fiscal year 1984.

5. Education loan program

House bill.—The House bill would terminate, effective October 1, 1981, the VA education loan program.

Senate amendment.—The Senate amendment would, with two exceptions, terminate the program effective October 1, 1982. Under those exceptions, education loans would remain available for use by certain Vietnam-era veterans pursuant to current law: (1) those continuing their full-time training in the first two years after the expiration of the GI Bill delimiting period, and (2) those pursuing flight training courses.

Conference agreement.—The conference agreement incorporates the House termination date with the Senate exceptions.

This provision is estimated to save $6 million, in outlays only, in fiscal year 1982, $5 million, in outlays only, in fiscal year 1983, and $4 million, in outlays only, in fiscal year 1984.

6. Health care cost recovery

House bill.—No provision.

Senate amendment.—The Senate amendment would clarify the VA's authority to recover the costs of non-service-connected health care in certain situations in which the veteran would be eligible to have those costs paid by a workers' compensation carrier, an automobile no-fault insurer, or a state that pays health-care costs for victims of crimes of personal violence.

Conference agreement.—The Senate recedes. It is noted that H.R. 3499, as passed by the House on June 2, 1981, contains a very similar provision, and the Veterans' Affairs Committees expect such a provision to be enacted in that bill.

○